J.C. Penney Company, Inc. 1981 Annual Report

J.C. Penney Company, Inc.

This is JCPenney.

JCPenney is a major retailer, with stores in all 50 states, Puerto Rico, and Belgium. The dominant portion of the Company's business consists of providing merchandise and services to consumers through stores, including catalog operations. The Company markets apparel, home and automotive products, drug store merchandise, and insurance.

Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 A.M., Monday, May 17, 1982, at the Westin Oaks, at the Galleria, 5011 Westheimer Road, Houston, Texas. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 12, 1982.

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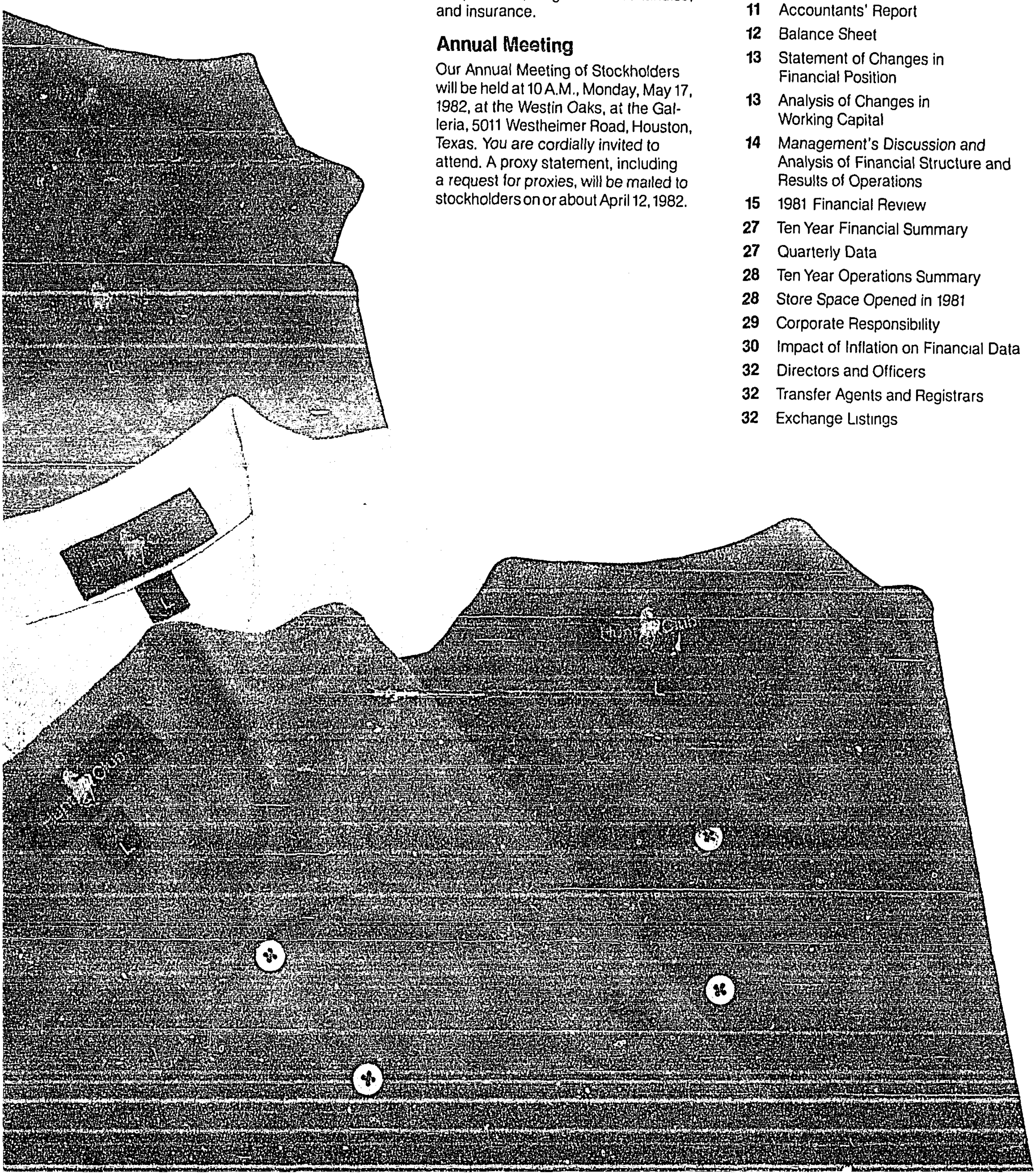


1981 Annual Report

To Our Stockholders:

JCPenney's earnings for 1981, a year of economic uncertainties and stiff competition, were the highest in the Company's history, rising 44.1 per cent to $387 million, or $5.50 per share, from $268 million, or $3.83 per share, in 1980.

Fourth quarter earnings also set a record, increasing 14.6 per cent to $207 million from $180 million in the prior year. This was the fifth consecutive quarter of record earnings.

The 1980 results exclude The Treasury discount operation, which was discontinued that year after it was determined that the resources required to make it viable and profitable could be deployed more advantageously in other activities.

Sales for the 52 weeks ended January 30, 1982, rose 4.5 per cent to $11.9 billion from the $11.4 billion reported for the 53 weeks ended January 31, 1981.

A combination of elements contributed to the Company's 1981 performance. Gross margin rose to 31.7 per cent from 29.4 per cent in the prior year as a result of higher markup and significantly lower LIFO provisions, which more than offset increased markdowns. Two factors were of particular significance. First, and most importantly, was the successful implementation of the Company's strategy to place increased emphasis on higher taste level apparel and soft home furnishings, which provide higher markup. Second was the decline in inflation in the soft goods category of general merchandise to 4.0 per cent from 5.8 per cent in 1980.

The impact on earnings of the LIFO method of inventory valuation, which matches current costs with current sales, is discussed on page 14.

Selling, general, and administrative expenses as a per cent to sales increased slightly in 1981 due primarily to higher personnel related costs and advertising expense.

Interest expense has declined in each of the last two years. This favorable trend reflects lower average borrowing levels as well as a shift in debt structure.

The Company has minimized its requirements for external borrowings to finance operations by accomplishing major objectives in managing inventories and debt. Inventories have been reduced systematically over the past three years but without adversely affecting our ability to respond to demands for seasonal merchandise The issuance of long term debt has decreased the need for short term borrowings and reduced the effects of fluctuating short term rates on earnings.

In 1981, JCPenney was involved in a number of innovative financings, including

Financial Highlights

(In millions except per share data)

For the Year	1981	1980	1979
Sales	**$11,860**	$11,353	$10,856
Per cent increase from prior year	**4.5**	4.6	4.0
Income from continuing operations	**$ 387**	$ 268	$ 261
Per cent increase (decrease) from prior year	**44.1**	2.6	(8.0)
Per cent of sales	**3.3**	2.4	2.4
Per cent of stockholders' equity	**14.7**	10.6	11.1
Income from continuing operations per share	**$ 5.50**	$ 3.83	$ 3.78
Dividends per share	**$ 1.84**	$ 1.84	$ 1.76
Capital expenditures	**$ 208**	$ 295	$ 355

Walter J. Neppl, Vice Chairman of the Board

the sale of zero coupon notes, the first of its kind in domestic public markets.

Also last year, we exchanged approximately 1.8 million shares of the Company's common stock for $70 million of our publicly traded sinking fund debentures. This resulted in a nontaxable gain of $23 million.

Operating profits of JCPenney stores and catalog increased substantially in 1981. Full line stores' sales rose 8.5 per cent to $7.9 billion, while soft line stores' sales amounted to $2.4 billion, about equal to those of 1980. Catalog sales of $1.7 billion were 9.3 per cent higher than the preceding year's total.

Sales of our Belgian operations declined 17.9 per cent to $748 million in 1981, reflecting the stronger U.S. dollar. In Belgian francs, however, sales increased 4.4 per cent. A small loss was recorded for the year compared with a small profit in 1980.

A ten year program to reposition and expand the Belgian retail operations was announced in 1981. The initial emphasis is on realigning the business, traditionally oriented to food and general merchandise, into four segments: department stores, apparel specialty shops, hypermarkets offering food and other current household needs, and franchised food and variety stores. Expansion of all four store types is planned for the latter part of the program, with emphasis on department and specialty stores. Each year's expenditures will be contingent upon achieving the prior year's objectives as well as upon economic conditions in Belgium. A provision of $35 million for expenses related to this program was made in 1981.

Drug stores' sales in 1981 rose 7.0 per cent to $507 million. Operating profits for the year were equal to those of 1980 despite the costs associated with closing stores in certain markets.

JCPenney Financial Services, our insurance operations, had net income of $29 million in 1981, as against $28 million in 1980. The increase resulted mainly from investment income.

While evaluating emerging growth opportunities in the broad consumer financial services area, we are concentrating on building the insurance business through direct response and in-store centers in order to take advantage of the JCPenney identity, reputation, and strengths. For this reason, we are seeking a buyer for Great American Reserve Insurance Company, a subsidiary that markets life and health insurance through an agency sales force.

Insurance centers were opened in 31 stores in 1981, bringing the total at year end to 98 stores in 13 markets.

Capital expenditures, mainly for JCPenney stores and catalog facilities, amounted to $208 million in 1981. During the year, we opened 36 full line and 11 soft line JCPenney stores and 12 drug stores, adding new space, net of closings, of about 1.6 million square feet of net selling space.

In 1982, we plan to open 18 full line and 13 soft line JCPenney stores and 14 drug stores. New store space added, net of closings, will be about one million square feet of net selling space.

Our capital expenditures budget for 1982 approximates $325 million. Virtually all of the increase over 1981 represents funds allocated to modernize existing stores.

Periodic updating of facilities is critical to improved productivity for retailers. This is why we expect modernizations to comprise a growing portion of our capital

Donald V. Seibert, Chairman of the Board

spending budget in coming years. As part of this effort, we will be allocating a greater proportion of selling space to women's apparel and accessories, men's wear, children's wear, home furnishings, and leisure merchandise.

In each of these merchandise areas, our aim in our stores and catalog is to match our offerings to the lifestyle needs and wants of consumers. In our Report to you this year, beginning with the cover, we illustrate this point with a look at some of the apparel, footwear, and equipment that we provide for leisure or, more appropriately, free time activities. Today, even armchair athletes recognize "the right stuff," the looks and labels that make one feel as well as act like a pro.

We invite your attention to page 29 wherein we report positive developments in the following areas covered under the heading of Corporate Responsibility: Community Involvement, Contributions, Minority Economic Development, Resource Recovery, Energy Conservation, Job Performance Action Program, and Equal Employment Opportunity. In the past year, the

Public Affairs Committee of the Board of Directors has continued to monitor the Company's progress in these areas.

Among important organizational changes in 1981 was the establishment of the Office of the Chairman. Donald V. Seibert, Walter J. Neppl, Kenneth S. Axelson, and William R. Howell were named members. Mr. Neppl was elected Vice Chairman of the Board of Directors and Messrs. Axelson and Howell were elected Executive Vice Presidents.

Jack B. Jackson, who was president of the Company from 1972 to 1976, retired as a member of the Board of Directors in 1981. Mr. Jackson was a major contributor to the Company's expansion into regional shopping centers in metropolitan markets nationwide. We extend our thanks to him for his more than 35 years of outstanding service to our Company.

Looking to the balance of 1982, we expect that economic conditions will improve as the year progresses because consumers are not burdened with high levels of indebtedness, inflation is moderating, and personal taxes are slated to be cut in July. A combination of these factors should bolster consumer spending during the second half. We are confident that the Company is well positioned to serve profitably a growing base of consumers this year and in the years ahead.

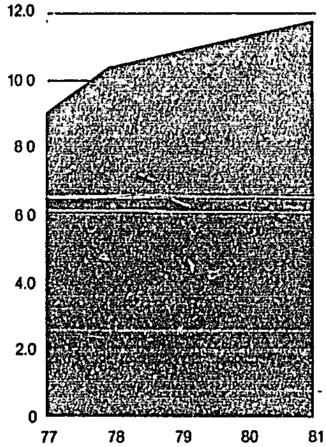
We thank our employees and suppliers for their contributions to the Company's 1981 performance and our customers and stockholders for their continued support and loyalty.

Donald V. Seibert, Chairman of the Board

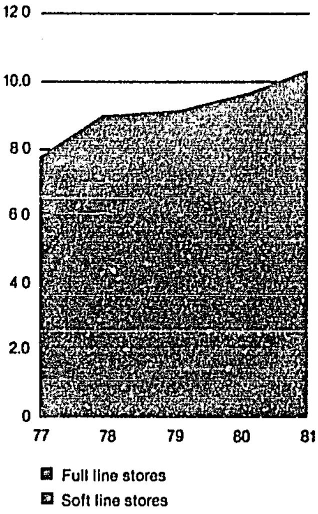
Walter J. Neppl, Vice Chairman of the Board

March 30, 1982

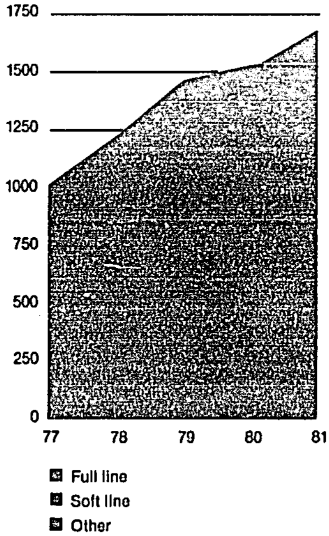
Total Sales
(Dollars in billions)



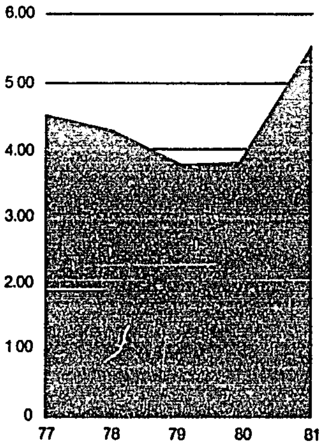
JCPenney Stores' Sales
(Dollars in billions)

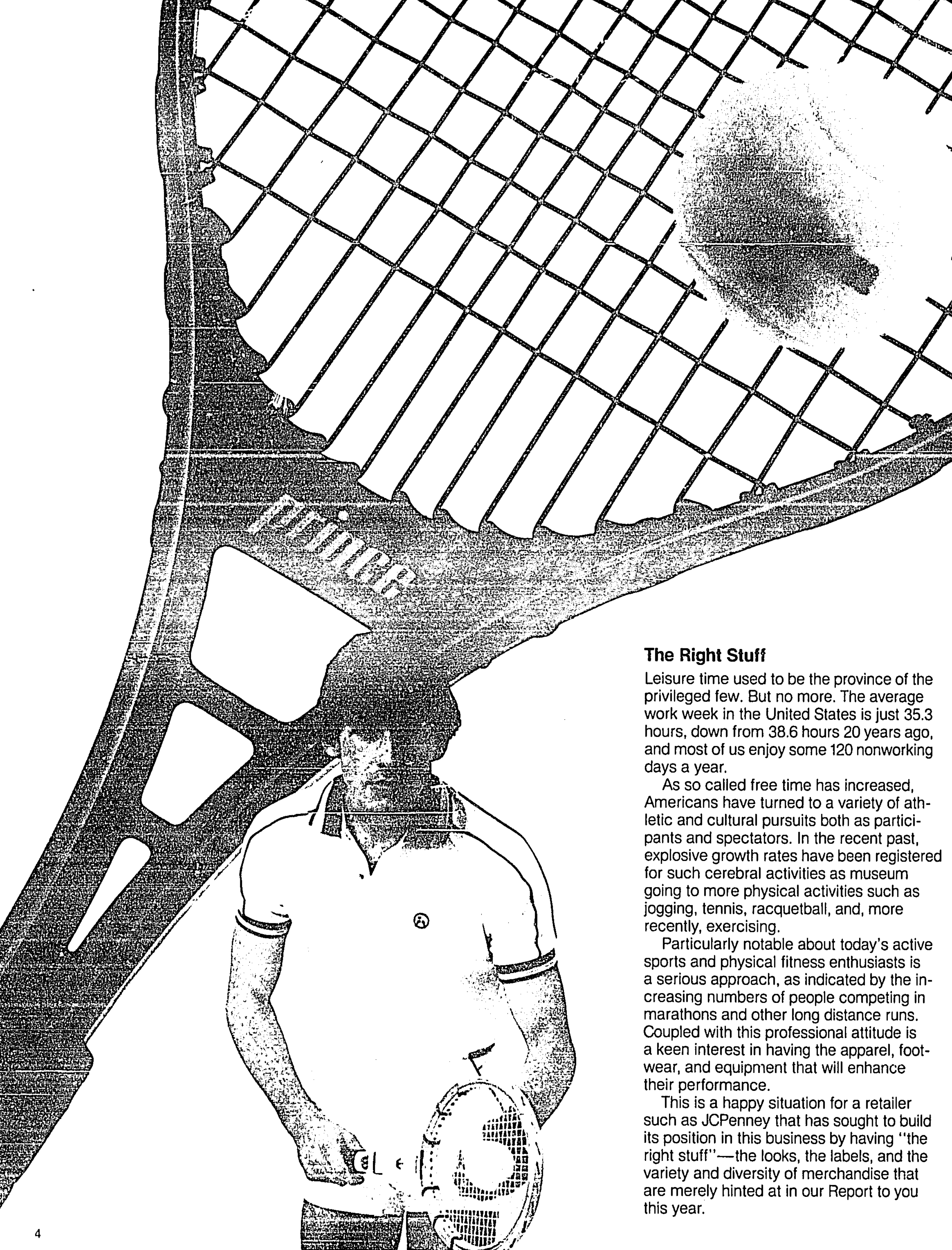


Catalog Sales
(Dollars in millions)



Net Income Per Share
(Dollars)





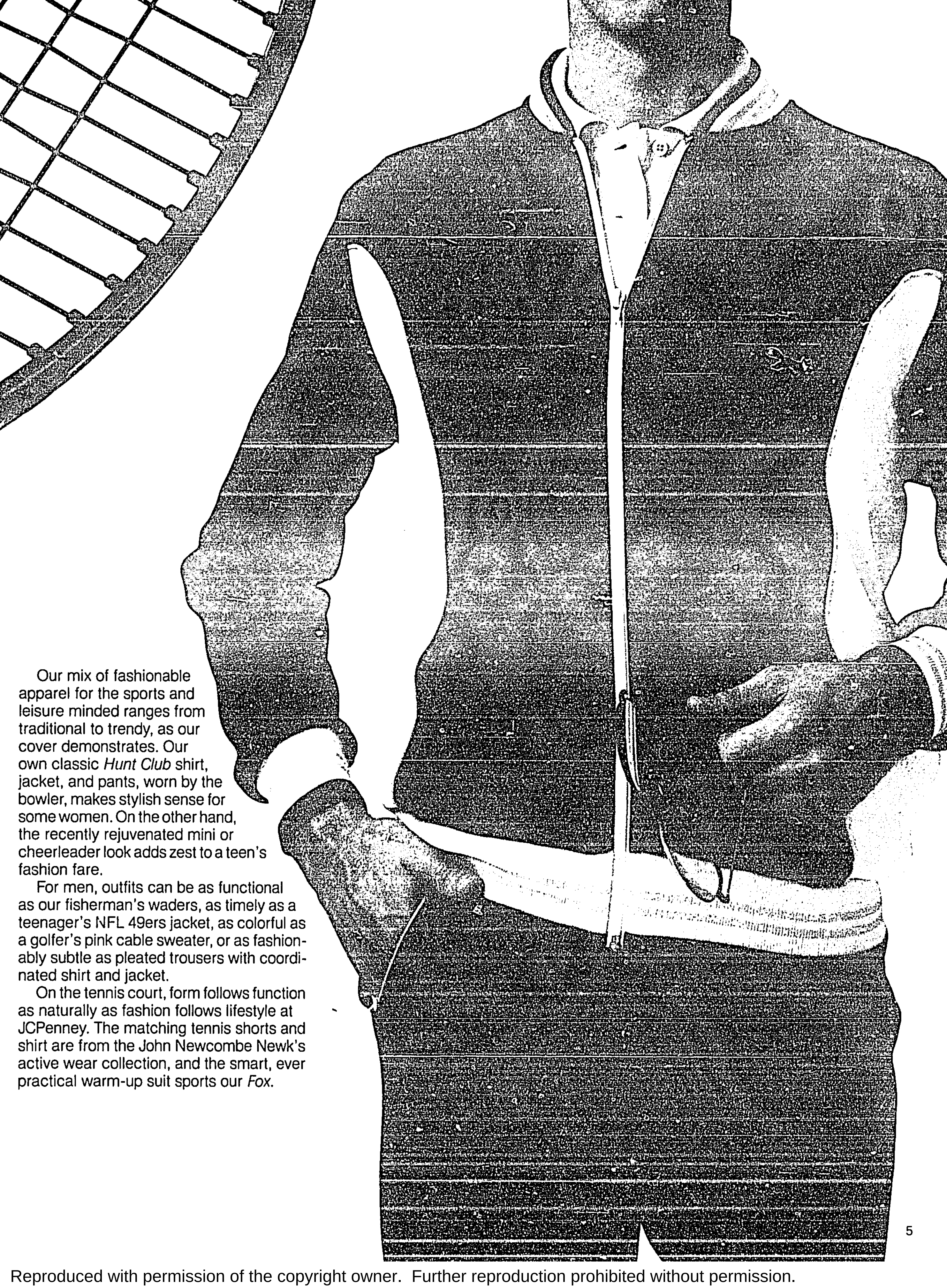
The Right Stuff

Leisure time used to be the province of the privileged few. But no more. The average work week in the United States is just 35.3 hours, down from 38.6 hours 20 years ago, and most of us enjoy some 120 nonworking days a year.

As so called free time has increased, Americans have turned to a variety of athletic and cultural pursuits both as participants and spectators. In the recent past, explosive growth rates have been registered for such cerebral activities as museum going to more physical activities such as jogging, tennis, racquetball, and, more recently, exercising.

Particularly notable about today's active sports and physical fitness enthusiasts is a serious approach, as indicated by the increasing numbers of people competing in marathons and other long distance runs. Coupled with this professional attitude is a keen interest in having the apparel, footwear, and equipment that will enhance their performance.

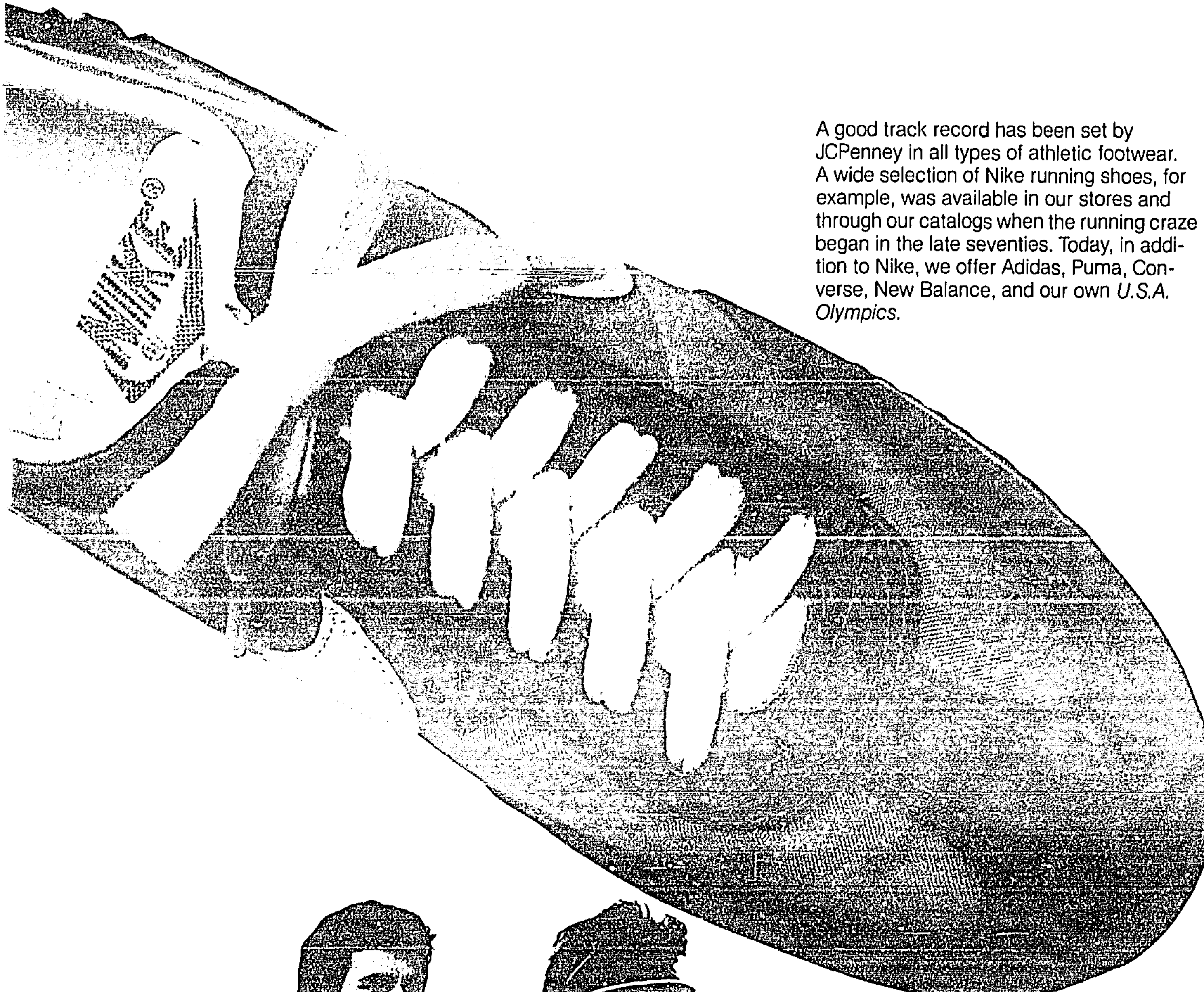
This is a happy situation for a retailer such as JCPenney that has sought to build its position in this business by having "the right stuff"—the looks, the labels, and the variety and diversity of merchandise that are merely hinted at in our Report to you this year.



Our mix of fashionable apparel for the sports and leisure minded ranges from traditional to trendy, as our cover demonstrates. Our own classic *Hunt Club* shirt, jacket, and pants, worn by the bowler, makes stylish sense for some women. On the other hand, the recently rejuvenated mini or cheerleader look adds zest to a teen's fashion fare.

For men, outfits can be as functional as our fisherman's waders, as timely as a teenager's NFL 49ers jacket, as colorful as a golfer's pink cable sweater, or as fashionably subtle as pleated trousers with coordinated shirt and jacket.

On the tennis court, form follows function as naturally as fashion follows lifestyle at JCPenney. The matching tennis shorts and shirt are from the John Newcombe Newk's active wear collection, and the smart, ever practical warm-up suit sports our *Fox*.



A good track record has been set by JCPenney in all types of athletic footwear. A wide selection of Nike running shoes, for example, was available in our stores and through our catalogs when the running craze began in the late seventies. Today, in addition to Nike, we offer Adidas, Puma, Converse, New Balance, and our own *U.S.A. Olympics*.

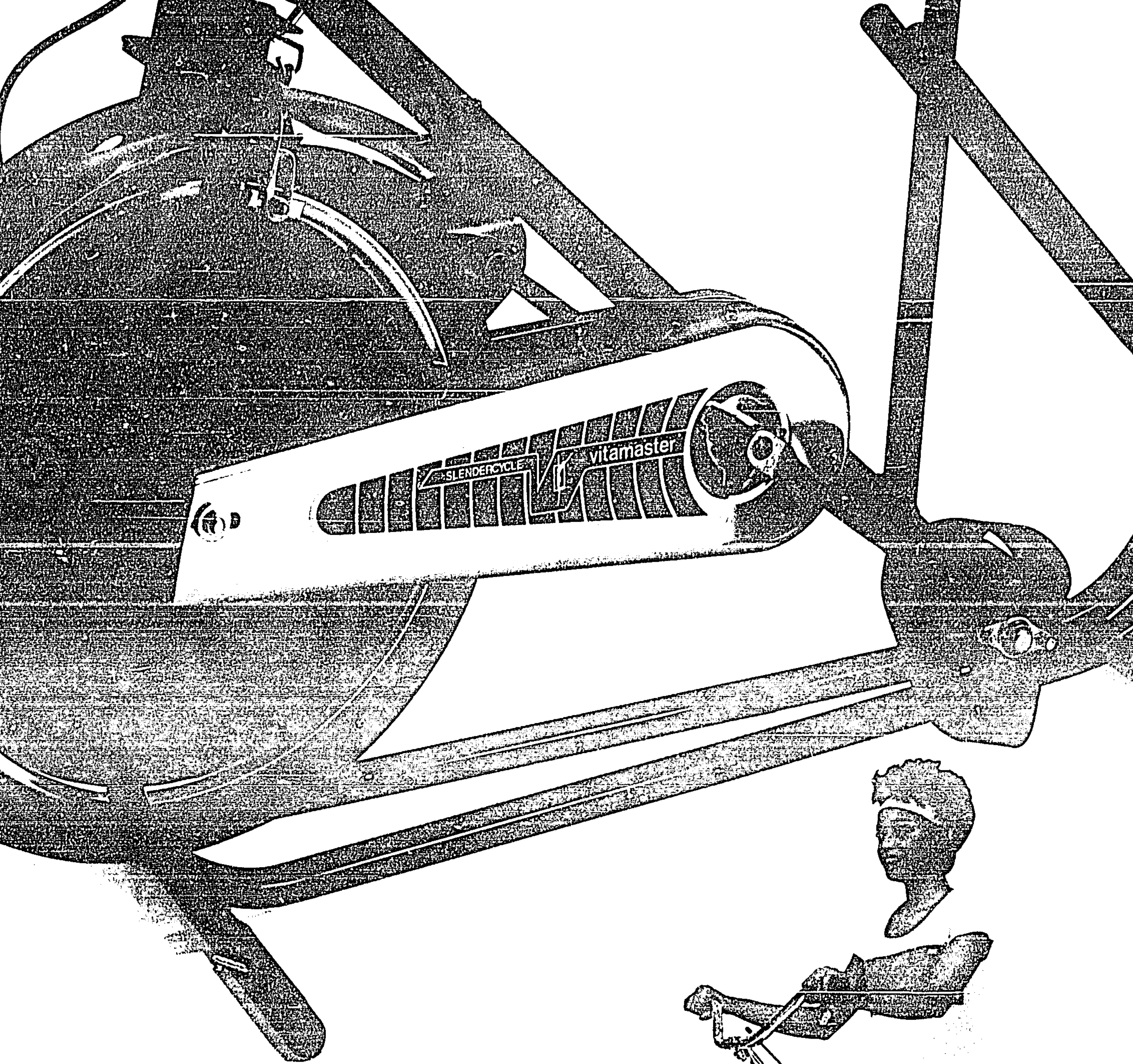
As with athletic footwear, brand consciousness is a key element in the selection of sports equipment by most consumers. What Prince and Wilson are to tennis racquets, Brunswick is to bowling, Rawlings to football, and Casio to joggers' watches.

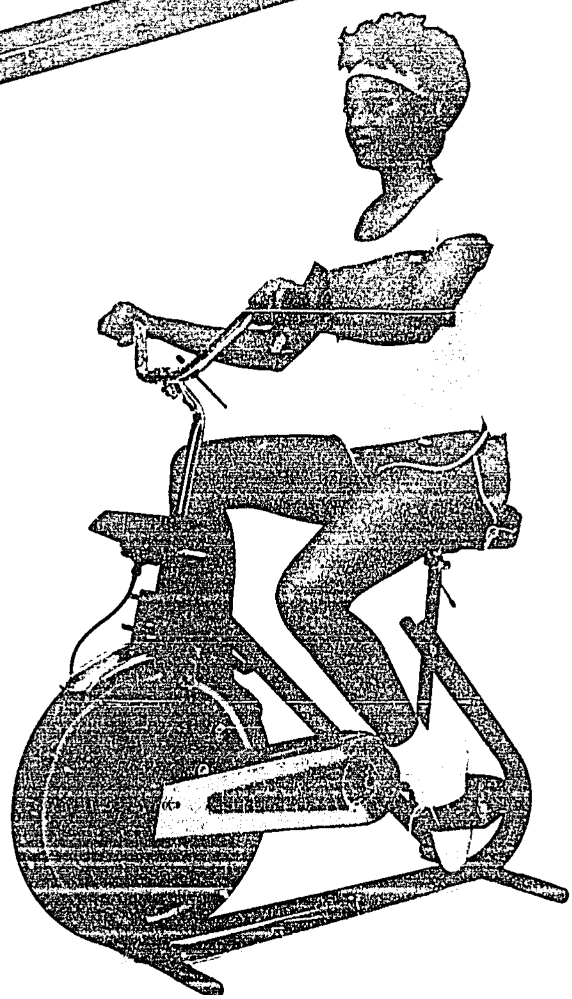
In athletic apparel, manufacturers' brand labels enhance consumers' perceptions of quality, selection, and timeliness. Both the striking red and white velour Nike and the similarly colored fleece Sweatworks running outfits shown here are available in JCPenney stores as well as in other department stores and specialty shops throughout the country.


SWEATWORKS
SWEATWORKS

Recent studies show that about half of all adult Americans today engage in some form of regular exercise or sports activity. That statistic translates to 70 million consumers—double the number of individuals involved with fitness activities 20 years ago.

At home forms of exercise and jogging are extremely popular at the present time. Since neither travel nor advance preparation is required for participation, both of these activities mesh with busy lifestyles. In addition, they appeal to the necessary budget consciousness of today's consumers.

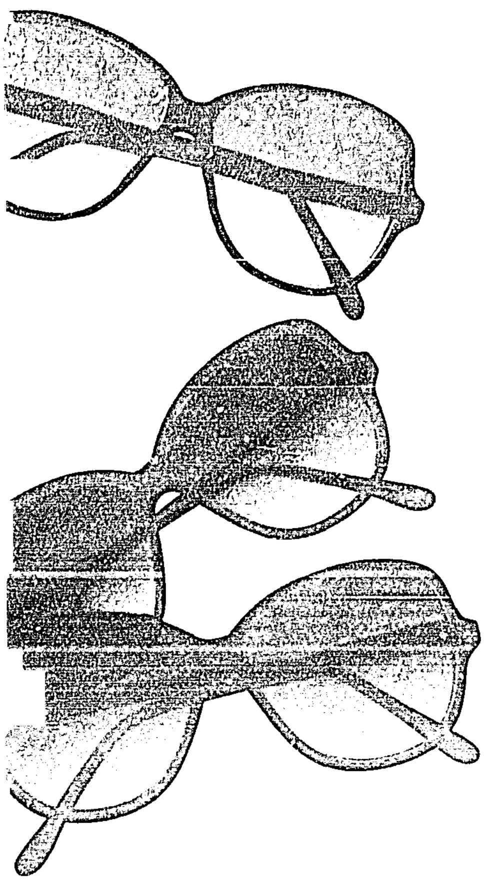




The main thrust in active wear is in the JCPenney name and our own private labels such as *Fox, Track & Court,* and *Hunt Club,* our newest entry. Representative merchandise appears throughout these pages.

Regardless of the sport, looking like a pro has become almost as important as "how one plays the game." What's more, active wear that scores with today's consumers is difficult to match even off the playing field for its contemporary look, comfort, and great value.

Summary of Accounting Policies



The dominant portion of JCPenney's business consists of selling merchandise and services to consumers through stores, including catalog operations.

Definition of Fiscal Year. JCPenney's fiscal year ends on the last Saturday in January. Fiscal year 1981 ended January 30, 1982; 1980 ended January 31, 1981; and 1979 ended January 26, 1980. They comprised 52 weeks, 53 weeks, and 52 weeks, respectively. The accounts of JCPenney Financial Services are on a calendar year basis.

Basis of Consolidation. The consolidated financial statements present the results of all merchandising operations and those real estate subsidiaries whose properties are presently being utilized in merchandising operations. Intercompany items and transactions have been eliminated in consolidation. Not consolidated are J.C. Penney Financial Corporation, JCPenney Financial Services, and JCP Realty, Inc., which are accounted for on the equity basis.

The income before income taxes of J.C. Penney Financial Corporation is included in the statement of income as a reduction of interest expense. The combined income of the other unconsolidated subsidiaries is included as a single item in the statement of income.

Sales. Sales include merchandise and services, net of returns, and exclude sales and value added taxes.

Accounts Receivable. Finance charge income arising from customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the statement of income.

Merchandise Inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 3 per cent for store buildings, 4 per cent for warehouse and office buildings, and 10 per cent for fixtures and equipment.

Income Taxes. JCPenney uses the "flow through" method whereby income taxes are reduced currently for the amounts of investment tax credits.

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months

Pension Cost. The cost of pension benefits has been determined by the entry age normal actuarial method. Unfunded actuarial liabilities are amortized over a period not to exceed 30 years.

Company Statement on Financial Information

The Company is responsible for the information presented in this Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and changes in financial position. Certain estimated amounts are included in the financial statements, and these amounts are based on currently available information and judgment of current conditions and circumstances Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

The Company's system of internal accounting controls and procedures is supported by written policies and guidelines and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable cost, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and, where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established procedures, policies, and guidelines are disseminated and understood throughout the Company.

The financial statements have been audited by independent public accountants whose report appears on page 11.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee is responsible for recommending to the Board the engagement of the independent public accounting firm for the purpose of conducting the annual examination of the Company's accounts. Company personnel, including internal auditors, and the independent public accountants meet periodically with the Audit Committee to review financial statements and discuss auditing and financial reporting matters.

Statement of Income

(In millions except per share data)

	52 weeks ended January 30, 1982	53 weeks ended January 31, 1981	52 weeks ended January 26, 1980
Sales	**$11,860**	$11,353	$10,856
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	**8,101**	8,017	7,656
Selling, general, and administrative expenses	**2,875**	2,691	2,532
Interest expense, net	**227**	233	254
Unusual items, net	**12**	(10)	—
Total costs and expenses	**11,215**	10,931	10,442
Income before income taxes and unconsolidated subsidiaries	**645**	422	414
Income taxes	**289**	184	180
Income before unconsolidated subsidiaries	**356**	238	234
Income of unconsolidated subsidiaries	**31**	30	27
Income from continuing operations	**387**	268	261
Discontinued operations, net of income taxes			
Operating losses	**—**	(21)	(17)
Provision for estimated costs of disposal	**—**	(14)	—
Net income	**$ 387**	$ 233	$ 244
Per share			
Income from continuing operations	**$ 5.50**	$ 3.83	$ 3.78
Discontinued operations, net of income taxes			
Operating losses	**—**	(.30)	(.26)
Provision for estimated costs of disposal	**—**	(.20)	—
Net income	**$ 5.50**	$ 3 33	$ 3 52

Statement of Reinvested Earnings

(In millions)

Reinvested earnings at beginning of year	**$1,848**	$1,737	$1,613
Net income	**387**	233	244
Unrealized change in market value of equity securities	**(11)**	6	2
Foreign currency translation adjustment	**(1)**	—	—
Dividends	**(129)**	(128)	(122)
Reinvested earnings at end of year	**$2,094**	$1,848	$1,737

See Summary of Accounting Policies on page 10 and 1981 Financial Review on pages 15 through 26.

Accountants' Report

To the Stockholders and Board of Directors of J. C. Penney Company, Inc.

We have examined the balance sheet of J. C. Penney Company, Inc. and consolidated subsidiaries as of January 30, 1982, January 31, 1981, and January 26, 1980, and the related statements of income, reinvested earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of J. C. Penney Company, Inc. and consolidated subsidiaries at January 30, 1982, January 31, 1981, and January 26, 1980, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

345 Park Avenue, New York, N Y.
March 19, 1982

Peat, Marwick, Mitchell & Co.

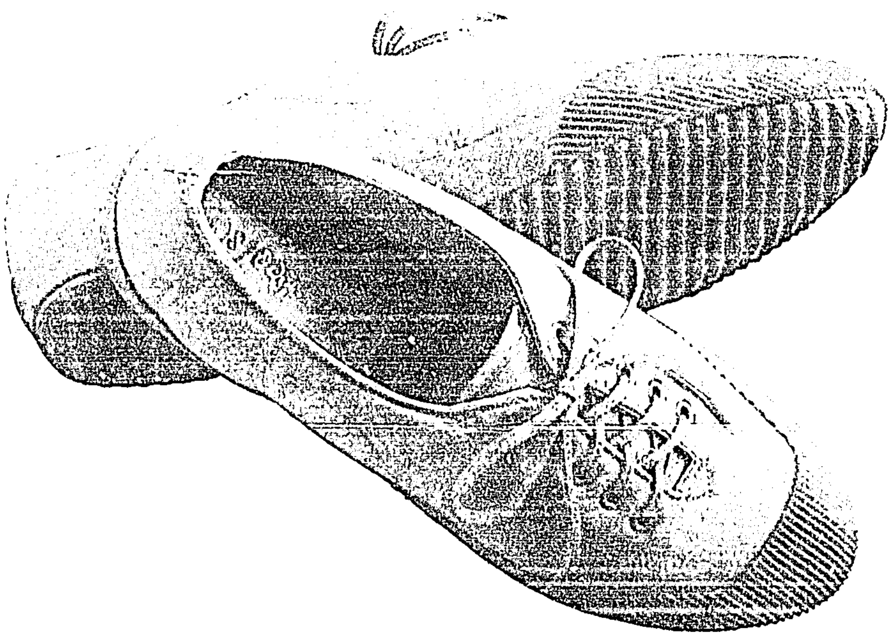
Balance Sheet

(In millions)

Assets	January 30, 1982	January 31, 1981	January 26, 1980
Current assets			
Cash and short term investments of $35 in 1981 and $360 in 1980	**$ 123**	$ 462	$ 99
Receivables, net	**1,617**	981	665
Merchandise inventories	**1,578**	1,571	1,687
Prepaid expenses	**109**	134	118
Total current assets	**3,427**	3,148	2,569
Investment in and advances to unconsolidated subsidiaries	**724**	673	579
Properties and property rights, net of accumulated depreciation and amortization of $779, $686, and $590	**1,932**	1,890	1,744
Other assets	**133**	124	149
	$6,216	$5,835	$5,041

Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable and accrued expenses	**$1,184**	$1,227	$1,114
Income taxes	**58**	94	41
Deferred taxes applicable to installment sales	**460**	412	466
Total current liabilities	**1,702**	1,733	1,621
Long term debt and commitments under capital leases	**1,405**	1,328	801
Deferred taxes applicable to depreciation and capital leases, net	**176**	135	99
Stockholders' equity			
Preferred stock, without par value: Authorized, 5 million shares—issued, none			
Common stock, par value 50¢· Authorized, 100 million shares—issued, 72, 70, and 70 million shares	**839**	791	783
Reinvested earnings	**2,094**	1,848	1,737
Total stockholders' equity	**2,933**	2,639	2,520
	$6,216	$5,835	$5,041

See Summary of Accounting Policies on page 10 and 1981 Financial Review on pages 15 through 26.



Statement of Changes in Financial Position

(In millions)

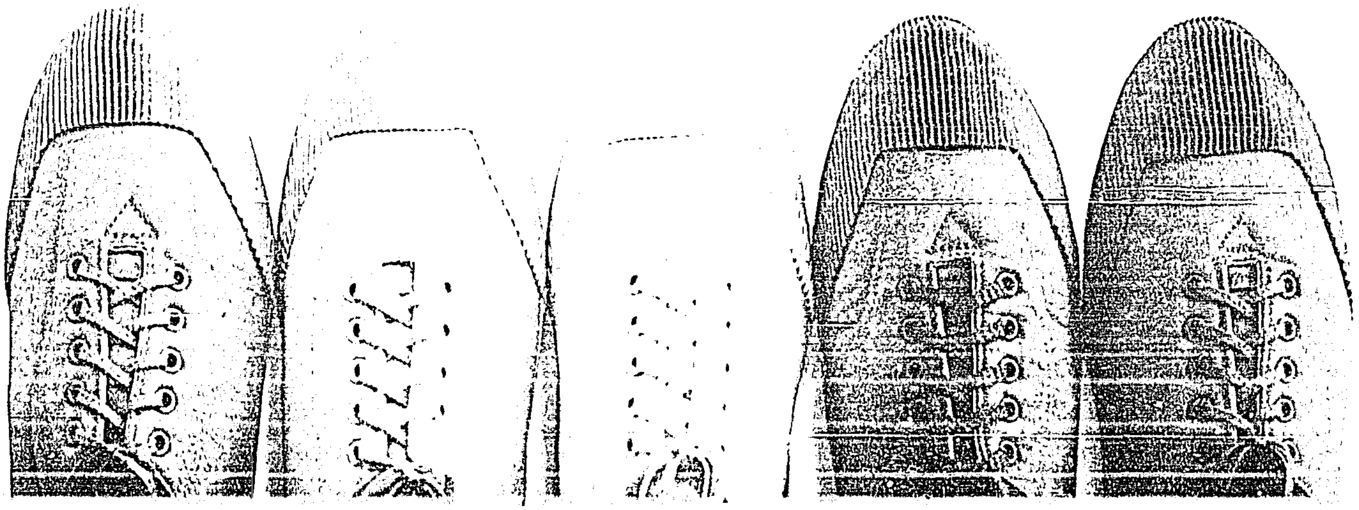
	52 weeks ended January 30, 1982	53 weeks ended January 31, 1981	52 weeks ended January 26, 1980
Funds were generated from			
Operations			
Income from continuing operations before undistributed income of unconsolidated subsidiaries	**$ 356**	$ 238	$ 234
Depreciation and amortization	**155**	145	131
Deferred taxes	**41**	36	29
Amortization of original issue discount	**9**	—	—
Total	**561**	419	394
Undistributed net income of J.C.Penney Financial Corporation	**(53)**	(55)	(60)
External sources			
Increase in long term debt	**149**	550	10
Issuance of common stock for sinking fund debentures	**47**	—	—
Other, net	**24**	(1)	35
Total funds generated	**728**	913	379
Funds were used for			
Dividends	**129**	128	122
Capital expenditures	**208**	295	355
Retirement of long term debt	**81**	23	15
Total funds used	**418**	446	492
Increase (decrease) in working capital	**$ 310**	$ 467	$(113)

Analysis of Changes in Working Capital

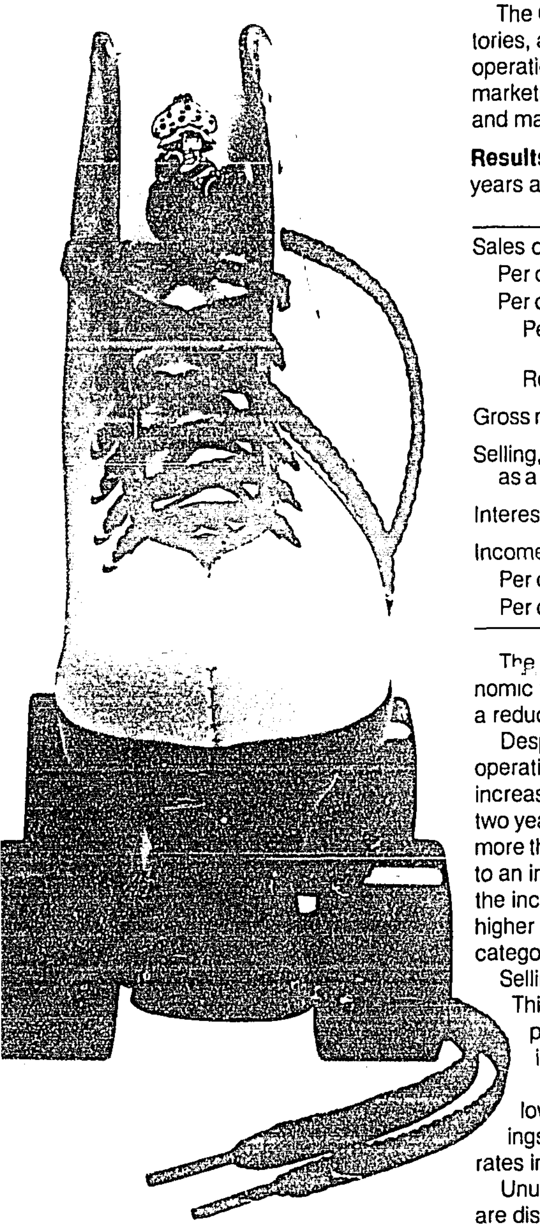
(In millions)

Cash and short term investments of $35 in 1981 and $360 in 1980	**$(339)**	$ 363	$ 21
Receivables, net	**636**	316	198
Merchandise inventories	**7**	(116)	(283)
Accounts payable and accrued expenses	**43**	(113)	(8)
Other	**(37)**	17	(41)
Increase (decrease) in working capital	**$ 310**	$ 467	$(113)

See Summary of Accounting Policies on page 10 and 1981 Financial Review on pages 15 through 26.



Management's Discussion and Analysis of Financial Structure and Results of Operations



Financial Structure. In the discussion of the Company's corporate financial structure, as shown on page 20, funds required to finance the Company's business have been generated principally from operations. Funds generated from operations increased from $394 million in 1979 to $419 million in 1980 and to a record $561 million in 1981.

During the past three years, the Company has minimized its requirements for external borrowings to finance operations as a result of accomplishing major objectives regarding managing inventories and debt. Inventories were reduced systematically while being maintained at levels sufficient to respond to consumer demands for seasonal merchandise and, at the same time, minimizing working capital requirements. This, combined with the issuance of long term debt in the last two years, substantially decreased the need for short term borrowings and reduced the effects of fluctuating short term interest rates on earnings.

The Company anticipates that the future sources of funds required to finance receivables, inventories, and expansion and to repay amounts borrowed in previous years will continue to be from operations and external borrowings, as needed and depending on the condition of the financial markets. The Company will continue to review all uses of funds to maximize financial returns and maintain financial flexibility.

Results of Operations. Ratios useful in analyzing the results of operations for each of the last three years are as follows:

	1981	1980	1979
Sales on 52 week basis			
Per cent increase	**6.0**	3 1	4.0
Per cent increase, domestic operations	**8.0**	2.9	3.4
Per cent increase in inflation in general merchandise	**4.7**	6.3	5.8
Real per cent increase (decrease)	**3.3**	(3.4)	(2.4)
Gross margin as a per cent to sales	**31.7**	29.4	29.5
Selling, general, and administrative expenses as a per cent to sales	**24.2**	23.7	23.3
Interest expense as a per cent to sales	**1.9**	2 1	2.3
Income from continuing operations			
Per cent increase (decrease) from prior year	**44.1**	2.6	(8.0)
Per cent to sales	**3.3**	2.4	2.4

The rates of sales increases in the past three years reflected the adverse effects of various economic forces on consumers. Consumers' spending for general merchandise has been impacted by a reduction in real purchasing power caused by high inflation in various sectors of the economy.

Despite the impact of the overall economy on the Company's sales, income from continuing operations increased in both 1981 and 1980 from that of the immediately preceding year. The 1981 increase is primarily attributable to improved gross margin which had stabilized in the preceding two years. The increase is the result of higher markup and significantly lower LIFO provisions, which more than offset increased markdowns. The LIFO reserve was virtually unchanged in 1981 compared to an increase of $111 million in 1980 and $92 million in 1979. The 1981 effect was due principally to the increased emphasis on higher taste level apparel and soft home furnishings, which resulted in higher markup than in 1980 and 1979. A related factor was the decline in inflation in the soft goods category of general merchandise to 4.0 per cent from 5.8 per cent in 1980 and 5.3 per cent in 1979.

Selling, general, and administrative expenses rose slightly as a per cent to sales in 1981 and 1980. This was due principally to higher personnel related costs and advertising expenses. During the past three years, the Company has tightly controlled expenses, many of which were greatly impacted by inflationary forces.

Interest expense declined in each of the last two years. This was accomplished through lower average borrowing levels coupled with a significant shift in debt structure. Long term financings were completed in 1981 and 1980 at interest rates substantially lower than short term interest rates in effect at the time of the financings.

Unusual items that affected the Company's income from continuing operations in 1981 and 1980 are discussed on page 15.

Income from continuing operations was 3.3 per cent of sales in 1981, the first time it exceeded 3 per cent since 1977. The Company's return on stockholders' equity of 14.7 per cent was the highest since 1977.

Additional Information. For additional discussion and analysis of 1981, see the 1981 Financial Review on pages 15 through 26. For required information as to the impact of inflation on financial data, see pages 30 and 31.

1981 Financial Review

Overview

Sales in 1981 were $11.9 billion, an increase of 4.5 per cent over $11.4 billion in 1980. Fiscal 1981 and 1979 comprised 52 weeks each compared with 53 weeks in 1980. On a comparable 52 week basis, sales in 1981 were 6.0 per cent higher than in 1980. A breakdown of the Company's sales is as follows.

(In millions)	1981	Per cent increase (decrease) 1981 vs. 1980 All units	Comparative units	1980	Per cent increase 1980 vs. 1979 All units	Comparative units	1979
JCPenney stores	**$10,290**	6.3	3.3	$ 9,675	3.8	.2	$ 9,322
Catalog	**1,680**	9.3	7.9	1,537	5.7	3.3	1,455
Other retail operations	**1,255**	(9.3)	(8.8)	1,385	9.1	8.7	1,270
Intracompany elimination	**(1,365)**	n/a	n/a	(1,244)	n/a	n/a	(1,191)
Total	**$11,860**	4.5	1.9	$11,353	4.6	1.1	$10,856

Catalog merchandise sold through catalog sales centers located in the Company's stores is included in the sales of those stores. Total catalog sales shown above include sales by catalog sales centers and mail. The duplication with respect to sales by catalog sales centers is eliminated. Comparative units are those in operation throughout both the current and prior year. For further analyses of sales, see the discussion below and the Ten Year Operations Summary on page 28

In the ten years ended January 30, 1982, sales have grown at a compound annual rate of 9.8 per cent.

Income from continuing operations was $387 million in 1981 compared with $268 million in 1980 and $261 million in 1979. Income from continuing operations per share, based on the weighted average number of shares outstanding, was $5 50 in 1981, $3.83 in 1980, and $3.78 in 1979.

In 1980, The Treasury discount operation was discontinued. After deducting the operating losses and a provision for costs expected to be incurred in closing Treasury stores, net income was $233 million in 1980 and $244 million in 1979. Net income per share amounted to $3.33 in 1980 and $3.52 in 1979.

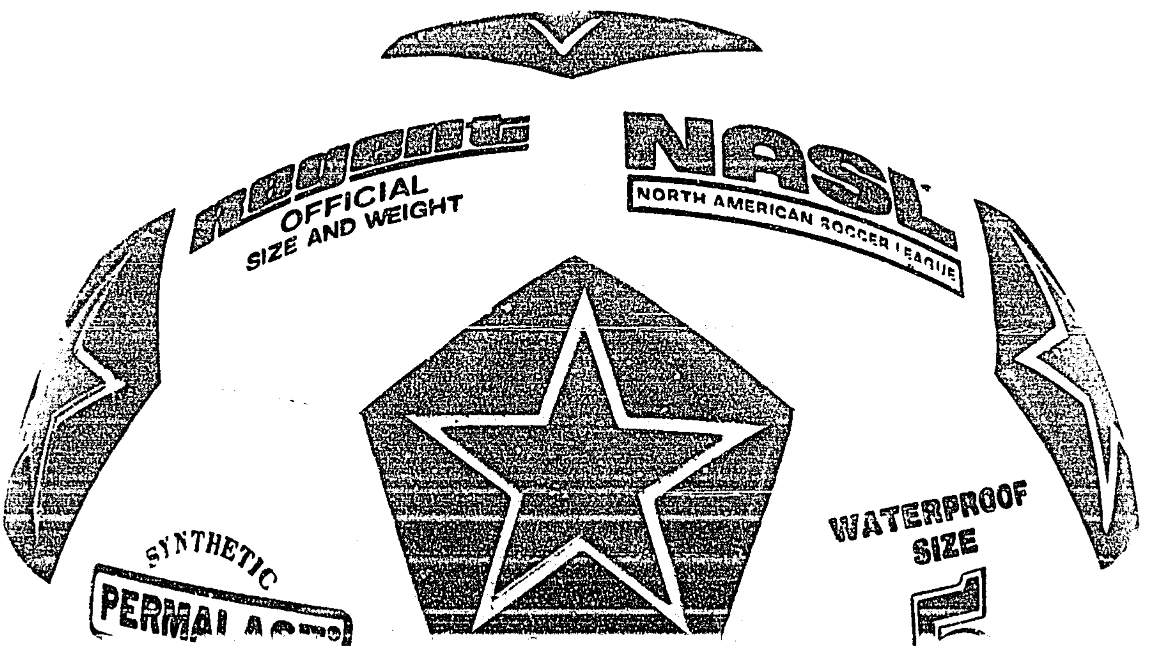
In the ten years ended January 30, 1982, income from continuing operations has increased at a compound annual rate of 11 2 per cent

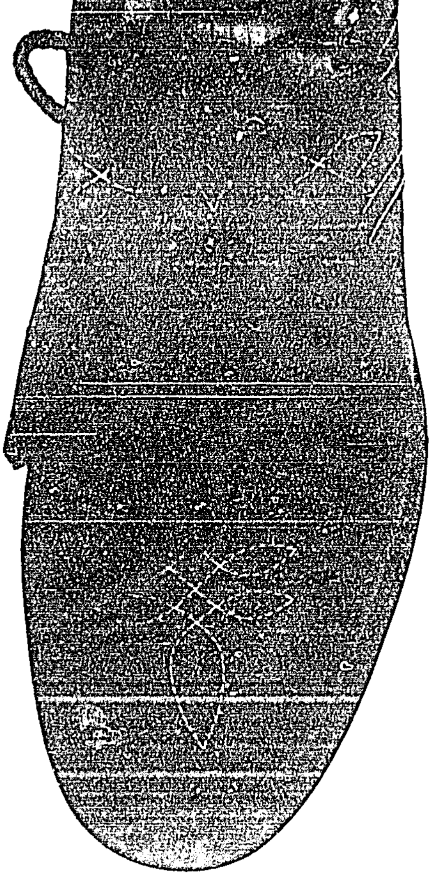
Unusual items reflected in the 1981 statement of income were comprised of a $23 million gain on the nontaxable exchange of shares of the Company's common stock for a portion of its outstanding long term debt and a provision of $35 million for expenses related to repositioning the Belgian retail operations. With respect to the exchange transaction, approximately 1 8 million shares of common stock, at a market value of $47 million, were exchanged for $70 million aggregate principal amount of sinking fund debentures. With respect to the repositioning, this program will involve, among other things, closing some stores, remodeling other stores, revising their merchandise mix, and eliminating approximately 1,100 jobs. The cost of eliminating these jobs represents the principal portion of the $35 million provision.

In 1980, the Company sold its securities in La Rinascente, an Italian retailer, which resulted in a gain of approximately $10 million. These securities were obtained in 1977 as a result of the sale of the Company's retail operations in Italy.

The unusual items increased net income by $5 million in 1981 and $7 million in 1980.

The quarterly dividend was 46 cents per share in each quarter of 1981 or an annual rate of $1.84 per share. Dividends were $129 million in 1981 compared with $128 million in 1980 and $122 million in 1979.





Retail units and net selling space increased as follows:

	1981 Number of units	1981 Net selling space (000 sq. ft.)	1980 Number of units	1980 Net selling space (000 sq. ft.)	1979 Number of units	1979 Net selling space (000 sq. ft.)
JCPenney stores						
Additions						
Full line	**36**	**2,398**	40	3,034	36	2,779
Soft line	**11**	**280**	32	823	30	756
Total	**47**	**2,678**	72	3,857	66	3,535
Closings						
Full line	**1**	**43**	5	368	2	77
Soft line						
Relocations	**33**	**512**	55	826	49	667
Other	**33**	**439**	13	171	15	203
Total	**67**	**994**	73	1,365	66	947
Increase (decrease), net	**(20)**	**1,684**	(1)	2,492	–	2,588
Other retail operations, net	**(17)**	**(164)**	9	104	15	379
Modifications and expansions, net	**—**	**37**	–	73	–	(181)
Total increase (decrease), net	**(37)**	**1,557**	8	2,669	15	2,786
Total in operation at year end	**2,082**	**69,311**	2,119	67,754	2,111	65,085

Ten soft line stores were reclassified as full line stores

A schedule of store space opened in 1981 appears on page 28 A history of retail units and net selling space is included in the Ten Year Operations Summary on page 28.

JCPenney Stores

JCPenney stores' sales were as follows:

(In millions)	1981	Per cent increase (decrease) 1981 vs 1980: All units	Comparative units	1980	Per cent increase (decrease) 1980 vs 1979: All units	Comparative units	1979
Full line	**$ 7,902**	8.5	3.5	$7,284	6.5	.4	$6,839
Soft line	**2,388**	(.1)	2 8	2,391	(3.7)	(.2)	2,483
Total	**$10,290**	6.3	3.3	$9,675	3 8	.2	$9,322

JCPenney full line stores, located throughout the United States, are generally major tenants in regional shopping centers. These department stores offer a wide selection of apparel, home furnishings, leisure merchandise, automotive equipment, and household durables. Virtually all full line stores have a catalog sales center.

The Company had 597 full line stores in operation at year end. These stores vary widely in size and average 85,000 square feet of net selling space. Sales per square foot of net selling space were approximately $159 for full line stores in operation throughout 1981. The Company continues to open full line stores in shopping centers of major metropolitan markets and has accelerated its program of remodeling existing stores.

Full line stores' profit increased in 1981 over the 1980 level due to increased sales, improved gross margin, and tight expense control. Profits in 1980 were higher than in 1979 principally due to increased sales.

JCPenney soft line stores sell principally apparel and home furnishings. Soft line stores vary widely in size and average 13,000 square feet of net selling space Virtually all have a catalog sales center which contributes importantly to sales and profits. Most are located in communities where the Company has operated stores for many years

At year end, the Company had 1,065 soft line stores in operation. Sales per square foot of net selling space were approximately $171 for soft line stores in operation throughout 1981. The Company continues to modernize existing stores, emphasize productivity, and expand into new markets.

Soft line stores' profit increased in 1981 from the 1980 level due principally to improved gross margin and tight expense control. Profits declined in 1980 due to lower sales than in 1979.

Catalog

Catalog operations serve customers who purchase merchandise through catalog sales centers located primarily in JCPenney stores and by mail. Catalog operations expand the Company's retailing capabilities by offering a wide range of apparel, home furnishings, and leisure merchandise. The Company publishes two general catalogs, Fall and Winter and Spring and Summer. These are supplemented by Christmas and other seasonal and promotional catalogs.

The following table shows the components of catalog sales:

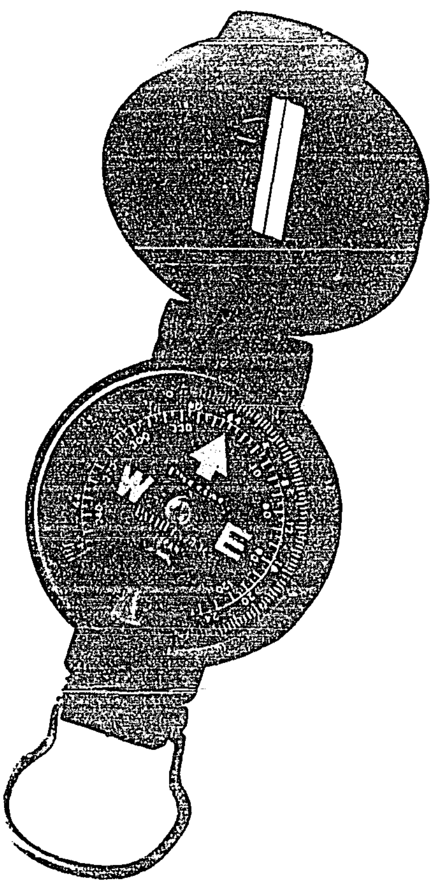
(In millions)	1981	Per cent increase 1981 vs 1980: All units	Per cent increase 1981 vs 1980: Comparative units	1980	Per cent increase (decrease) 1980 vs 1979: All units	Per cent increase (decrease) 1980 vs 1979: Comparative units	1979
JCPenney stores							
Full line	**$ 712**	14.9	8.5	$ 620	8.7	.3	$ 571
Soft line	**561**	2.6	6.7	547	(.5)	2.7	550
Other	**407**	9.9	9.3	370	10.8	15.7	334
Total	**$1,680**	9.3	7.9	$1,537	5.7	3.3	$1,455

The number of catalog sales centers at each year end is shown below.

	1981	1980	1979
JCPenney stores			
Full line	**595**	560	525
Soft line	**1,061**	1,117	1,149
Other	**189**	163	146
Total	**1,845**	1,840	1,820

Catalog's profit rose to a record level in 1981. The improvement in each of the last two years was due to improved sales, significantly improved gross margin, and expense control.

Other Retail Operations



Sales of other retail operations were as follows

(In millions)	1981	Per cent increase (decrease) 1981 vs 1980: All units	Per cent increase (decrease) 1981 vs 1980: Comparative units	1980	Per cent increase 1980 vs 1979: All units	Per cent increase 1980 vs 1979: Comparative units	1979
Belgian operations	**$ 748**	(17.9)	(18.2)	$ 911	5.8	6.4	$ 861
Drug stores	**507**	7.0	7.5	474	16.0	12.6	409
Total	**$1,255**	(9.3)	(8.8)	$1,385	9.1	8.7	$1,270

Belgian stores, operating under the name Sarma, sell general merchandise, food, and apparel. At year end, there were 72 Sarma stores with an average of 26,000 square feet of net selling space. Belgian operations include sales to franchised stores of $350 million in 1981, $410 million in 1980, and $375 million in 1979. At year end, 185 franchised stores were in operation. Food sales accounted for about 60 per cent of Belgian sales in each of the three years. Belgian operations also include restaurants operated and developed under the Wendy system and trademarks. At year end, five Wendy restaurants were in operation.

In 1981, the U.S. dollar strengthened by approximately 14 per cent in relation to the Belgian franc, resulting in a decline in sales of Belgian operations as expressed in U.S. dollars. In Belgian francs, however, sales in 1981 of all units and comparative units increased 4.4 per cent and 3.7 per cent, respectively.

Net assets were $91 million at year end 1981 compared with $95 million at year end 1980 and $93 million at year end 1979.

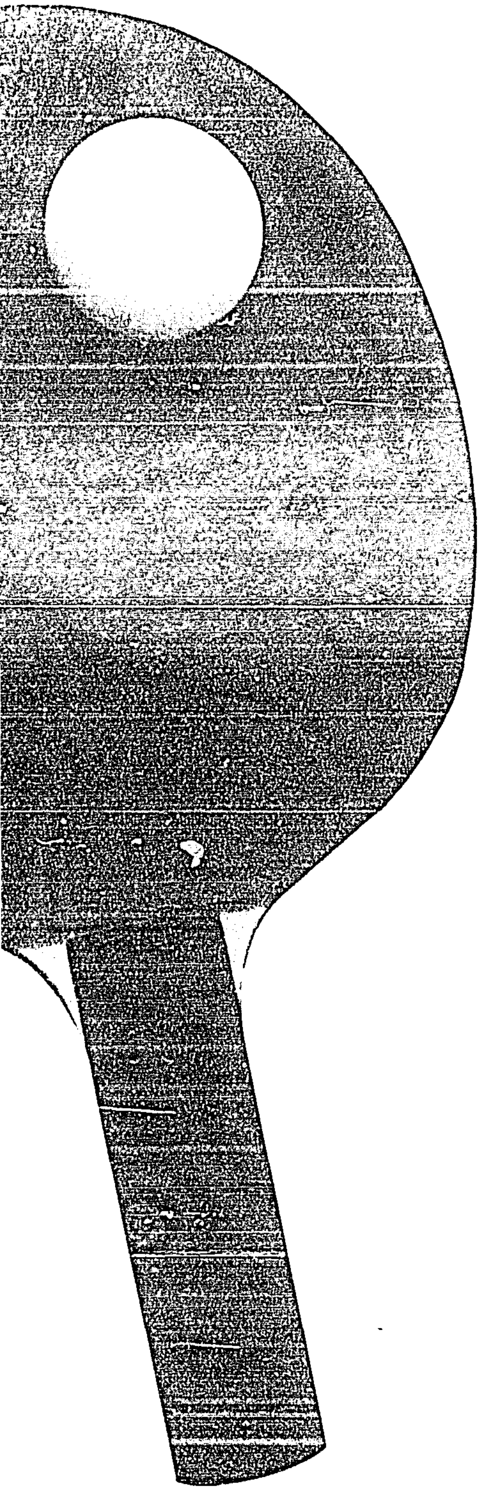
Belgian operations, excluding the $35 million provision for expenses related to repositioning, had a small loss for the year compared with a profit in 1980. Profits declined in 1980 from the 1979 level. The declining results in both years were due to lower gross margins and increased operating expenses.

During December 1981, the Financial Accounting Standards Board issued Statement No. 52, Foreign Currency Translation. The Company has elected to adopt such Statement for 1981. Therefore, all assets and liabilities have been translated at the current exchange rate at the end of the year, with the difference reflected in stockholders' equity, while income and expenses have been translated at the weighted average exchange rate for the year. The adoption of Statement No. 52 resulted in only a minor change in net income for 1981. Prior period financial statements have not been restated because this change in accounting did not have a material effect on financial position or results of operations.

Drug stores, operating under the name Thrift Drug or The Treasury Drug Center, average 8,400 square feet of net selling space and offer typical drug store merchandise, including prescription drugs and health and beauty aid products. During 1981, 12 stores opened and 30 stores closed, including 27 which were closed due to the withdrawal from certain markets. At year end, the Company operated 343 drug stores, of which 113 had catalog sales centers.

Drug stores' profit in 1981 was about the same as in the prior year, despite the cost of closing stores in certain markets. Drug stores' profit in 1980 increased over the 1979 level as a result of increased sales.

Unconsolidated Subsidiaries



Investment in and advances to unconsolidated subsidiaries stated at equity were as follows:

(In millions)	1981	1980	1979
J.C.Penney Financial Corporation	**$506**	$481	$434
JCPenney Financial Services	**253**	215	166
JCP Realty, Inc.	**(35)**	(23)	(21)
Total	**$724**	$673	$579

J. C. Penney Financial Corporation (Financial) finances a portion of JCPenney's customer receivables. Financial charges JCPenney a discount on the receivables purchased which is calculated to produce earnings sufficient to cover Financial's fixed charges, chiefly interest on borrowings, at least one and one-half times

The condensed balance sheets of Financial were as follows:

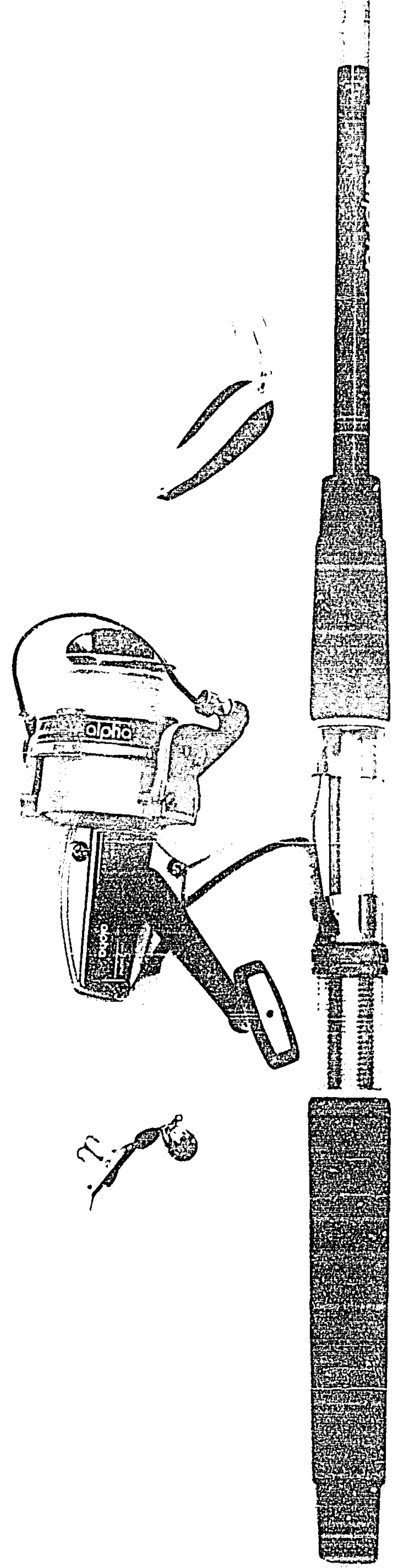
(In millions)	1981	1980	1979
Assets			
Customer receivables, net of contract reserve of $88, $94, and $123	**$1,667**	$1,788	$2,342
Due from JCPenney	**36**	8	—
Other, including short term investments of $185 in 1981 and $105 in1980	**197**	116	7
	$1,900	$1,912	$2,349
Liabilities and equity			
Notes payable	**$ 482**	$ 532	$1,018
Accrued expenses	**39**	34	26
Long term debt	**837**	857	871
Equity of JCPenney	**542**	489	434
	$1,900	$1,912	$2,349

The complete financial statements of Financial are contained in its 1981 annual report, which is available upon request.

JCP Realty, Inc. is engaged in the development and operation of shopping centers through participation in joint ventures.

At year end, Realty had interests in 47 shopping centers: 32 in operation, two under construction, and 13 in the planning stage.

Realty recorded a small profit in each of the last three years and at year end had advanced $61 million to JCPenney.



JCPenney Financial Services consists of the operations of the Company's insurance subsidiaries. These subsidiaries market life and health insurance and automobile and homeowners casualty insurance. In 1981 and 1980, the Company contributed $20 million and $15 million, respectively, to its casualty insurance subsidiary.

JCPenney Financial Services' profit improvement in each of the last two years was due primarily to investment income.

Combined financial information on the insurance operations follows:

Summary of operations

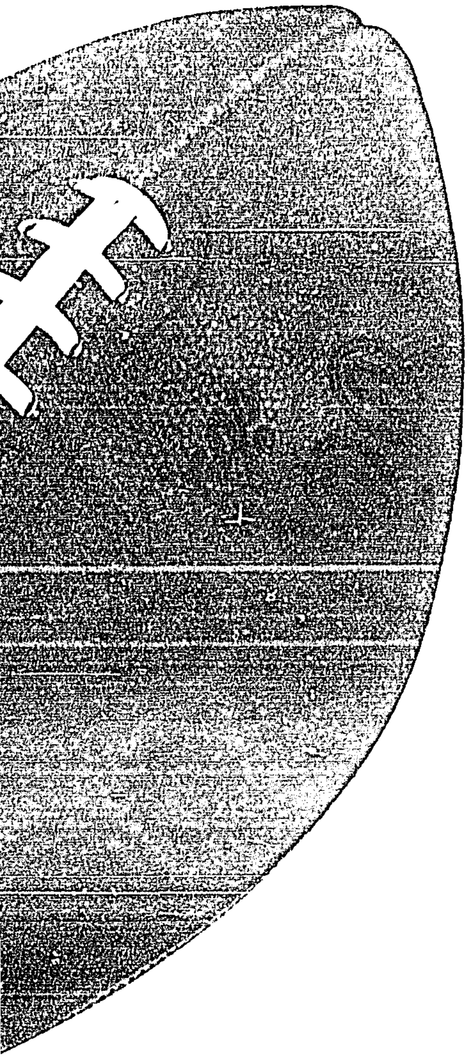
(In millions)	1981	1980	1979
	Year ended December 31		
Life and health			
Premiums written	**$128**	$116	$104
Premiums earned	**$127**	$111	$100
Investment income	**30**	23	19
Total	**157**	134	119
Benefits, claims, and expenses	**124**	106	88
Income before income taxes	**33**	28	31
Casualty			
Premiums written	**$101**	$ 96	$ 88
Premiums earned	**$ 99**	$ 93	$ 82
Investment income	**17**	15	9
Total	**116**	108	91
Claims and expenses	**107**	94	85
Income before income taxes	**9**	14	6
Combined			
Income before income taxes	**42**	42	37
Income taxes	**13**	14	11
Net income	**$ 29**	$ 28	$ 26

Balance sheet

(In millions)	1981	1980	1979
	December 31		
Assets			
Investments			
Fixed income, at amortized cost (market: $220, $201, and $129)	**$271**	$242	$157
Short term, at cost	**100**	76	139
Equity, at market (cost: $61, $54, and $25)	**54**	62	24
Other	**46**	44	44
Total investments	**471**	424	364
Deferred policy acquisition costs	**134**	99	76
Other assets	**49**	44	39
	$654	$567	$479
Liabilities and equity			
Policy and claims reserves	**$318**	$283	$253
Income taxes and other liabilities	**74**	60	50
Long term debt	**9**	9	10
Equity of JCPenney	**253**	215	166
	$654	$567	$479

The Company has announced that it is seeking a buyer for Great American Reserve Insurance Company, a subsidiary which markets life and health insurance through an agency sales force and is licensed in 46 states. The Company is retaining both its operations for direct response and its sales centers in stores. These operations are conducted through J.C. Penney Life Insurance Company and J.C. Penney Casualty Insurance Company. Great American Reserve Insurance Company's contribution to net income was $3 million, $4 million, and $5 million for the years 1981, 1980, and 1979, respectively, and at December 31, 1981, it had net assets of approximately $50 million.

Corporate Financial Structure



The corporate financial structure, combining the assets and liabilities of J.C. Penney Company, Inc. and its consolidated subsidiaries with J.C. Penney Financial Corporation, was as follows:

(In millions)	1981	1980	1979
Assets			
Receivables, net	**$3,284**	$2,769	$3,007
Merchandise inventories	**1,578**	1,571	1,687
Properties and property rights, net	**1,932**	1,890	1,744
Other	**560**	563	518
	$7,354	$6,793	$6,956
Liabilities and equity			
Accounts payable and accrued expenses	**$1,223**	$1,261	$1,140
Short term debt, net of short term investments of $220 in 1981 and $465 in 1980	**262**	67	1,018
Long term debt	**2,242**	2,185	1,672
Income taxes, primarily deferred	**694**	641	606
Stockholders' equity	**2,933**	2,639	2,520
	$7,354	$6,793	$6,956

The changes in the financial structure during each of the last three years were as follows.

(In millions)	1981	1980	1979
Funds generated from operations	**$561**	$ 419	$ 394
Less funds used			
Increase in customer receivables	**253**	35	241
Purchase of customer receivables	**262**	—	—
Increase (decrease) in inventories, net of trade accounts payable	**81**	(221)	(213)
Capital expenditures	**208**	295	355
Dividends	**129**	128	122
Other, net	**(55)**	27	(121)
Total	**878**	264	384
External funds required (retired)	**$317**	$(155)	$ (10)
Sources of funds			
Increase (decrease) in short term debt	**$201**	$(953)	$ (91)
Increase in long term debt	**57**	513	45
Common stock issued	**48**	8	30
Sale of customer receivables	**—**	273	—
Sale of properties	**11**	4	6
	$317	$(155)	$ (10)

Assets

Receivables were as follows:

(In millions)	1981	1980	1979
Customer receivables			
Regular charge	**$2,269**	$1,912	$2,118
Time payment	**914**	706	756
	3,183	2,618	2,874
Less allowance for doubtful accounts (2% of customer receivables)	**64**	52	58
	3,119	2,566	2,816
Other receivables, net	**165**	203	191
Receivables, net	**$3,284**	$2,769	$3,007
Company	**$1,617**	$ 981	$ 665
Financial	**$1,667**	$1,788	$2,342

During 1981, the Company purchased for approximately $262 million customer receivables previously sold to a subsidiary of Citicorp.

Merchandise inventories at year end 1981 were $1,578 million, a slight increase from $1,571 million at year end 1980.

Substantially all inventories are valued at the lower of cost, last-in, first-out (LIFO), or market, determined by the retail method. If the first-in, first-out (FIFO) method of inventory valuation had been used by the Company, inventories at year end would have been approximately $345 million higher for 1981 and 1980 and $233 million higher for 1979.

Properties and property rights at year end were as follows:

(In millions)	1981	1980	1979
Land	$ 100	$ 99	$ 92
Buildings			
Owned	832	729	607
Capital lease property rights	278	278	278
Fixtures and equipment	1,149	1,097	1,007
Leasehold improvements	206	194	180
Construction in progress and related land	146	179	170
	2,711	2,576	2,334
Less accumulated depreciation and amortization	779	686	590
Properties, net	$1,932	$1,890	$1,744

Capital expenditures for the past three years are shown in the following tabulation.

(In millions)	1981	1980	1979
Land	$ 7	$ 5	$ 10
Buildings	70	137	165
Fixtures and equipment	113	136	156
Leasehold improvements	18	17	24
Total capital expenditures	$208	$295	$355

Expenditures to remodel stores were $57 million in both 1981 and 1980 and $83 million in 1979. A breakdown of capital expenditures is shown below:

(In millions)	1981	1980	1979
JCPenney stores	$157	$231	$274
Catalog	10	26	34
Other	41	38	47
Total	$208	$295	$355

JCPenney stores include expenditures for support facilities directly related to store operations

Liabilities and Stockholders' Equity

Accounts payable and accrued expenses were as follows.

(In millions)	1981	1980	1979
Accounts payable—trade	$ 420	$ 494	$ 389
Dividend payable	32	32	31
Taxes, other than income taxes	134	172	174
Accrued salaries, vacations, profit sharing, and bonuses	297	258	247
Other	301	271	273
Company	1,184	1,227	1,114
Financial	39	34	26
Total accounts payable and accrued expenses	$1,223	$1,261	$1,140

Short term debt consists of the following:

(In millions)	1981	1980	1979
Financial			
Commercial paper	$361	$340	$ 880
Master notes	115	86	138
Current maturities of long term debt	6	106	—
Total	482	532	1,018
Short term investments			
Financial	185	105	—
Company	35	360	—
Total	220	465	—
Short term debt, net	$262	$ 67	$1,018

The following table provides information regarding borrowings, investments, and interest rates:

	Average amount (In millions)			Average rate		
	1981	1980	1979	**1981**	1980	1979
Short term debt	**$ 579**	$ 811	$1,257	**15.6%**	12.5%	11.0%
Short term investments	**(563)**	(372)	(130)	**(16.8)**	(13.0)	(11.5)
Long term debt	**2,137**	1,753	1,372	**10.2**	9.4	8.7
Total debt	**$2,153**	$2,192	$2,499	**9.8**	9.9	9.7

Long term debt changed in 1981 and 1980 as shown below:

(In millions)	**1981**	1980
Increases		
Original issue discount		
6% debentures due 2006 ($200 at maturity)	**$ 84**	$ —
Zero coupon notes due 1989 ($200 at maturity)	**66**	—
Amortization of discount	**9**	—
12.375% deferred purchase notes due 1986	**75**	25
Other notes and debentures, 10.75% to 13.50% due 1985 to 2010	**—**	650
	234	675
Average effective interest cost	***13.1%***	*11.8%*
Decreases		
Sinking fund debentures exchanged for common stock	**70**	—
Notes payable 13 months after demand	**88**	33
9.45% debentures due 1981	**—**	100
Other	**19**	29
	177	162
Net increase in long term debt	**$ 57**	$513

Long term debt and commitments under capital leases are shown below.

(In millions)	**1981**	1980	1979
Company			
Original issue discount, $400 at maturity, yield 14 25% and 14 85%, due 1989 and 2006	**$ 159**	$ —	$ —
Debentures and notes			
8.50% to 9%, due 1983 to 1999	**301**	375	391
10.75% to 12%, due 1990 to 2010	**550**	550	—
Other	**116**	118	120
	1,126	1,043	511
Present value of commitments under capital leases	**279**	285	290
	1,405	1,328	801
Financial			
Debentures and notes			
4.50% to 9%, due 1984 to 1998	**$ 490**	$ 496	$ 500
9.45% to 13.50%, due 1981 to 1994	**325**	250	225
Other	**22**	111	146
	837	857	871
Long term debt and commitments under capital leases	**$2,242**	$2,185	$1,672

In February 1982, $350 million zero coupon notes due 1994 were sold (proceeds $65 million).

To provide for conversion of certain debentures, 625 thousand shares of common stock were reserved at January 30, 1982.

Maturities of long term debt, including sinking fund requirements, and rental payments under capital leases in future periods are as follows:

(In millions)	Long term debt JCPenney	Financial	Combined	Capital leases
1982	$ 2	$ 6	$ 8	$ 26
1983	102	6	108	26
1984	12	119	131	27
1985	29	127	156	27
1986	12	127	139	26
1987 to 1991	505	259	764	132
Thereafter	708	199	907	259
Total	1,370	843	2,213	523
Less future interest and executory expenses	—	—	—	233
	$1,370	$843	$2,213	$290

Confirmed lines of credit available to JCPenney totaled $951 million, including $921 million available to JCPenney or Financial. None were in use at January 30, 1982. Some lines of credit are supported by compensating balances, which are also used to compensate the banks for banking services associated with activity.

Stockholders' equity increased to $2,933 million at year end 1981 from $2,639 million at year end 1980. Of the increase, $246 million resulted from an increase in reinvested earnings. The return on stockholders' equity was 14.7 per cent in 1981, as compared with 10.6 per cent in 1980 and 11.1 per cent in 1979.

The following table shows the changes in outstanding common stock.

	Shares (In thousands)			Amounts (In millions)		
	1981	1980	1979	**1981**	1980	1979
Balance at beginning of year	**70,060**	69,703	68,318	**$791**	$783	$744
Issued to savings and profit-sharing plan	—	344	1,290	—	8	37
Issued in exchange for sinking fund debentures	**1,767**	—	—	**47**	—	—
Other	**41**	13	95	**1**	—	2
	71,868	70,060	69,703	**$839**	$791	$783

The number of stockholders was approximately 86,000 at year end 1981, 89,000 at year end 1980, and 86,000 at year end 1979. Approximately 79,000 employees were the beneficial owners, through the savings and profit-sharing plan, of 11.5 million shares of common stock at year end 1981, representing 16.0 per cent of the shares outstanding.

JCPenney common stock is traded principally on the New York Stock Exchange, ticker symbol—JCP. It is also traded on other exchanges in the United States and is listed and traded on the Brussels and Antwerp Stock Exchanges.

Stock Option and Performance Unit Plan. In accordance with this plan, 2.5 million shares of common stock, as well as shares available under a previous stock option plan, are reserved for issuance under the performance unit portion of the plan and upon the exercise of options granted.

Performance units are earned based on the degree to which Company performance meets or exceeds established targets. For 1981 and 1980, approximately $5 million and $2 million, respectively, was distributed to plan participants.

Under the stock option portion of the plan, ten-year incentive and non-qualified stock options may be granted. Options generally become exercisable one year from the date of grant.

Transactions in stock options were as follows:

	1981		1980		1979	
	Shares (In thousands)	Option price	Shares (In thousands)	Option price	Shares (In thousands)	Option price
Balance at beginning of year	**2,243**	**$24.44-70.44**	2,017	$29.38-70.44	1,761	$35.32-70.44
Granted	**352**	**26.44**	348	24.44	333	29.38
Exercised	**(27)**	**24.44-29.38**	—	—	(1)	29.38
Expired	**(104)**	**24.44-70.44**	(122)	24.44-70.44	(76)	29.38-70.44
Balance at end of year	**2,464**	**$24.44-70.44**	2,243	$24.44-70.44	2,017	$29.38-70.44

At January 30, 1982, options for 2.1 million shares were available for grant.

Additional Financial Data

Consumer purchases through JCPenney and bank credit cards were as follows:

	1981 Amounts (in billions)	1981 Per cent of eligible sales	1980 Amounts (in billions)	1980 Per cent of eligible sales	1979 Amounts (in billions)	1979 Per cent of eligible sales
JCPenney credit card	**$4.6**	**41.2**	$4.1	39 1	$4.2	41.8
Bank cards	**.5**	**4.5**	.4	3 4	.1	1.2
Total	**$5.1**	**45.7**	$4.5	42.5	$4.3	43.0

Eligible sales exclude sales in Belgium

Consumer purchases through credit cards increased to a more normal level in 1981 following a reduction during most of 1980 when the Federal Reserve Board's program of credit controls was in effect.

Approximately 82 6 per cent of sales on JCPenney credit cards were made in accordance with the regular plan and the balance in accordance with the time payment plan.

At year end, the number of JCPenney credit accounts with outstanding balances was 12.6 million regular plan and 2 4 million time payment. Average account balances and average maturities were as follows:

	Average account balances 1981	1980	1979	Average maturities (In months) 1981	1980	1979
Regular	**$180**	$172	$172	**5.2**	5 3	5 3
Time	**388**	380	371	**10.8**	10.3	9.7
All	**213**	202	201	**6.1**	6.1	6.1

Account balances with any portion three months or more past due represented 2.2 per cent of the amount of customer receivables at year end 1981 and 2.3 per cent at year end 1980 and 1979.

The Company's policy is to write off accounts when a dollar amount equal to a scheduled minimum payment has not been received for six consecutive months, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses Net bad debt losses were $79 million, or 1.7 per cent of credit sales in 1981, $77 million, or 1.9 per cent of credit sales in 1980, and $63 million, or 1 5 per cent of credit sales in 1979.

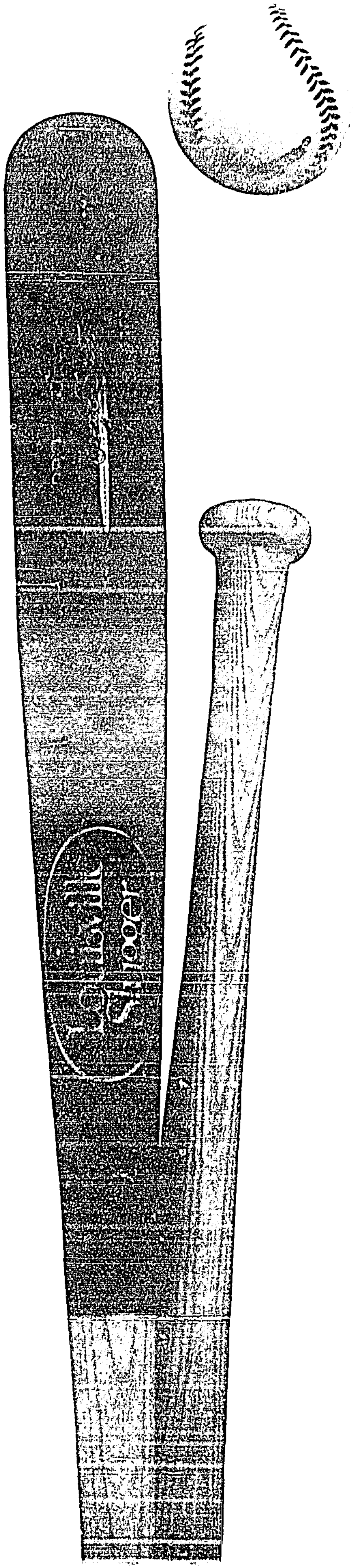
The net cost of the retail credit operation was as follows:

(In millions)	1981	1980	1979
Finance charge income	**$411**	$360	$370
Costs			
Administration and applicable store expenses	**207**	192	181
Interest on average receivables less applicable deferred taxes	**220**	211	217
Provision for doubtful accounts	**85**	77	68
Income taxes	**(42)**	(50)	(39)
	470	430	427
Net cost of credit	**$ 59**	$ 70	$ 57
Net cost as per cent of credit sales	**1.3%**	1.7%	1.4%

Advertising expense by the Company for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was $302 million in 1981, as compared with $270 million in 1980 and $261 million in 1979.

Interest expense was as follows:

(In millions)	1981	1980	1979
Discount on customer receivables sold to Financial	**$ 232**	$ 267	$ 301
Interest on advances from (to) Financial	**4**	(4)	7
Interest on long term debt	**122**	79	42
Interest imputed on capital leases	**19**	22	23
Other, principally interest income	**(44)**	(16)	3
	333	348	376
Less:			
Income before income taxes of Financial	**(100)**	(102)	(111)
Interest capitalized	**(6)**	(13)	(11)
Interest expense	**$ 227**	$ 233	$ 254
Interest on long term debt	**$ 225**	$ 187	$ 142
Interest on short term debt, net	**2**	46	112
	$ 227	$ 233	$ 254



Income tax expense was as follows

(In millions)	**1981**	1980	1979
Current			
Federal	**$176**	$189	$ 90
State and local	**24**	13	8
	200	202	98
Deferred			
Federal	**82**	(19)	74
State and local	**7**	1	8
	89	(18)	82
Total income tax expense	**$289**	$184	$180
Effective tax rate on income from continuing operations	**44.8%**	43.6%	43.5%

Deferred taxes arise principally from deferred gross profit on the balances due on installment sales, accelerated depreciation, and the accounting for capital leases.

The effective tax rate differed from the Federal income tax statutory rates as detailed below:

	Amounts (In millions)			Per cent of pre-tax income		
	1981	1980	1979	**1981**	1980	1979
Federal income tax statutory rate	**$296**	$195	$190	**46.0**	46.0	46.0
Investment credits	**(13)**	(14)	(17)	**(2.0)**	(3.3)	(4.1)
State and local income taxes, less Federal income tax benefit	**17**	8	9	**2.6**	1.9	2.1
Gain on nontaxable exchange of common stock for sinking fund debentures	**(10)**	—	—	**(1.6)**	—	—
Other	**(1)**	(5)	(2)	**(.2)**	(1 0)	(.5)
Total income tax expense	**$289**	$184	$180	**44.8**	43.6	43.5

Taxes other than income taxes, over half of which were payroll taxes, totaled $229 million in 1981, up from $226 million in 1980 and $216 million in 1979.

During 1981, under the provisions of the Economic Recovery Tax Act, the Company purchased from other companies certain income tax deductions and credits. A portion of these tax deductions and credits was used to reduce the payments for Federal income taxes in 1981. Income tax expense has not been affected, and no gain or loss has been recognized from these transactions.

Rent expense for real and personal property amounted to $354 million in 1981, as compared with $340 million in 1980 and $313 million in 1979.

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 30 years; however, most leases will be renewed or replaced by leases on other premises

The components of rent expense were as follows:

(In millions)	**1981**	1980	1979
Minimum rent on operating leases	**$192**	$189	$177
Other occupancy costs including rent based on sales	**162**	151	136
Total	**$354**	$340	$313

Minimum annual rents under noncancellable operating leases and the present value of the total commitment are as follows:

(In millions)	
1982	$ 184
1983	176
1984	170
1985	162
1986	158
Thereafter	1,945
Total	$2,795
Present value	$ 900

Savings and retirement plans' expenses were as follows:

(In millions)	**1981**	1980	1979
Pension	**$66**	$58	$54
Savings and profit-sharing	**30**	23	22
Total	**$96**	$81	$76

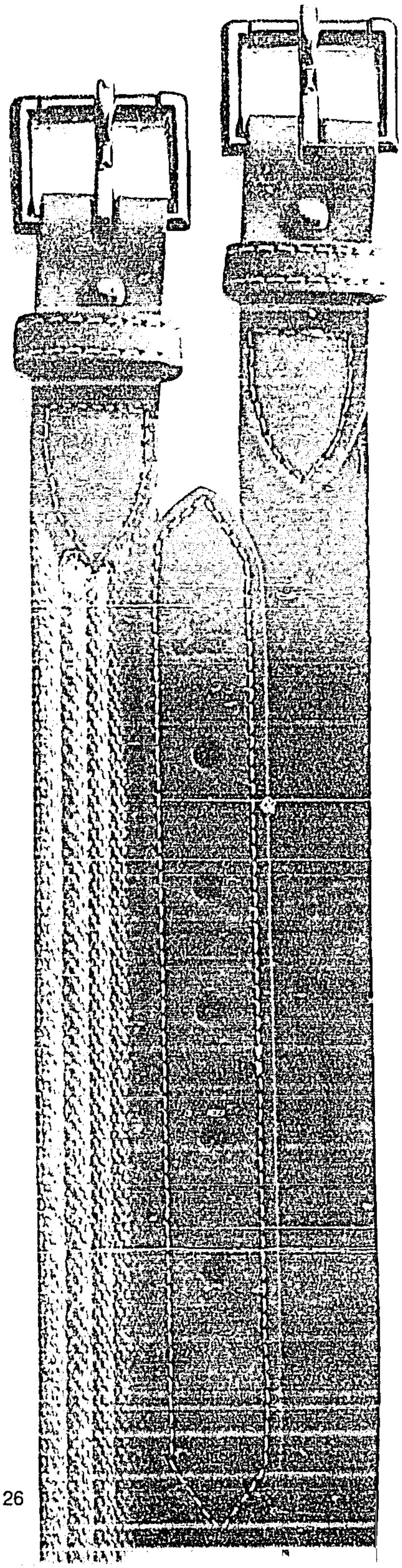
JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months. Current pension costs are funded annually as incurred, and at year end 1980, based upon market valuation of investments, all vested benefits were fully funded.

In addition, the Company has an unfunded, noncontributory, supplemental retirement plan for certain management employees.

The unfunded actuarial liability for all pension and retirement plans at December 31, 1980, according to the latest actuarial valuation, was $203 million.

The present value of accumulated benefits for all participants in the Company's principal pension plan and the supplemental plan and the applicable net assets of the plans are as follows:

(In millions)	December 31 1980	1979
Present value of accumulated benefits		
Vested	$179	$134
Non-vested	29	69
	$208	$203
Net assets available for benefits	$429	$315



In determining the actuarial present value of accumulated benefits, the assumed rate of return used was 8 5 per cent. Each one per cent change in this assumed rate of return would change the present value of accumulated benefits by approximately $28 million. The rate of return used in determining the funding and pension costs of the retirement plans was 6 0 per cent.

The savings and profit-sharing plan encourages savings by employees through the allocation of 4 5 per cent of the Company's available profits, as defined in the plan, to participants who make deposits under the plan. The eligibility requirement is the same as that under the Company's principal pension plan.

Condensed financial statements of the principal retirement plans are as follows·

Balance sheet

	Savings and profit-sharing			Pension		
	December 31			December 31		
(In millions)	**1981**	1980	1979	**1981**	1980	1979
Assets						
JCPenney common stock at market value (11, 10, and 9 million shares; at cost: $427, $402, and $381)	**$329**	$245	$234	**$ —**	$ —	$ —
Funds with insurance companies	**126**	119	111	**—**	—	—
Other investments at market value (cost: $17, $20, $14, $392, $286, and $227)	**19**	20	15	**406**	338	245
Other assets, net	**30**	22	21	**36**	43	35
	$504	$406	$381	**$442**	$381	$280
Liabilities and equity						
Estimated liability for pensions	**$ —**	$ —	$ —	**$442**	$381	$280
Participants' equity in savings and profit-sharing plan	**504**	406	381	**—**	—	—
	$504	$406	$381	**$442**	$381	$280

Statement of changes in retirement plans' assets

	Savings and profit-sharing			Pension		
	December 31			December 31		
(In millions)	**1981**	1980	1979	**1981**	1980	1979
Total assets at beginning of year	**$406**	$381	$371	**$381**	$280	$209
Company contributions	**30**	24	23	**47**	43	41
Participants' contributions	**49**	47	47	**—**	—	—
Investment income	**32**	28	23	**58**	29	18
Unrealized appreciation (depreciation) of investments	**47**	(21)	(35)	**(38)**	34	16
Benefits paid	**(60)**	(53)	(48)	**(6)**	(5)	(4)
Total assets at end of year	**$504**	$406	$381	**$442**	$381	$280

Ten Year Financial Summary

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Results for year (In millions)										
Sales	$ **11,860**	11,353	10,856	10,436	9,040	8,065	7,375	6,681	6,022	5,347
Per cent increase from prior year	**4.5**	4.6	4.0	15.4	12.1	9 4	10.4	10.9	12 6	14.9
Costs and expenses excluding interest and depreciation	$ **10,833**	10,553	10,057	9,633	8,276	7,453	6,824	6,242	5,508	4,905
Interest	$ **227**	233	254	208	130	111	124	155	112	78
Depreciation and amortization	$ **155**	145	131	114	102	94	87	78	68	58
Income before income taxes and unconsolidated subsidiaries	$ **645**	422	414	481	532	407	340	206	334	306
Per cent of sales	**5.4**	3.7	3.8	4.6	5.9	5 0	4.6	3.1	5.5	5.7
Income taxes	$ **289**	184	180	220	253	191	159	98	164	152
Income from continuing operations	$ **387**	268	261	284	296	227	187	117	180	164
Per cent increase (decrease) from prior year	**44.1**	2 6	(8.0)	(4.0)	30.7	20 9	59.7	(34.8)	9 7	22.8
Per cent of sales	**3.3**	2.4	2.4	2 7	3.3	2.8	2 5	1 8	3 0	3.1
Per cent of stockholders' equity	**14.7**	10 6	11.1	13 4	15 8	13.6	13 6	9 1	15.8	16.5
Per share										
Income from continuing operations	$ **5.50**	3.83	3.78	4.25	4.53	3.55	3.12	1.99	3.09	2 84
Dividends	$ **1.84**	1 84	1.76	1 76	1 48	1.28	1.16	1.16	1 11	1.05
Stockholders' equity	$ **40.81**	37.67	36 16	34.92	32.19	29 11	27 53	23 22	22.00	19 57
Financial structure (In millions)										
Receivables, net	$ **3,284**	2,769	3,007	2,766	2,372	1,961	1,689	1,565	1,406	1,190
Merchandise inventories	$ **1,578**	1,571	1,687	1,970	1,651	1,231	1,156	1,186	1,106	1,018
Properties and property rights, net	$ **1,932**	1,890	1,744	1,526	1,318	1,160	1,063	985	896	786
Capital expenditures and property rights	$ **208**	295	355	331	284	236	292	250	214	251
Total assets	$ **7,354**	6,793	6,956	6,729	5,740	4,775	4,404	4,092	3,660	3,254
Short term debt, net	$ **262**	67	1,018	1,103	823	451	385	708	757	693
Long term debt	$ **2,242**	2,185	1,672	1,627	1,282	1,169	1,079	1,040	702	635
Stockholders' equity	$ **2,933**	2,639	2,520	2,357	2,118	1,873	1,669	1,382	1,293	1,138
Stockholders and employees										
Number of stockholders at year end (In thousands)	**86**	89	86	86	83	78	77	76	75	74
Average number of shares outstanding (In millions)	**70**	70	69	67	65	64	60	59	58	58
Number of employees at year end (In thousands)	**187**	194	200	204	187	177	180	188	196	172

Quarterly Data (Unaudited)	First			Second			Third			Fourth*		
(In millions except per share data)	**1981**	1980	1979	**1981**	1980	1979	**1981**	1980	1979	**1981**	1980	1979
Sales	**$2,511**	2,271	2,242	**2,625**	2,425	2,381	**2,926**	2,765	2,666	**3,798**	3,892	3,567
Per cent increase (decrease) from prior year	**10.6**	1.3	7.0	**8.2**	1.9	2.1	**5.8**	3.7	2.2	**(2.4)**	9 1	4.8
Cost of goods sold, occupancy, buying, and warehousing costs	**$1,729**	1,591	1,556	**1,818**	1,740	1,698	**1,986**	1,954	1,858	**2,568**	2,732	2,544
Income from continuing operations	$ **50**	18	37	**44**	11	20	**86**	59	65	**207**	180	139
Per cent increase (decrease) from prior year	**180.7**	(51 6)	5.9	**304.4**	(45.1)	(52.5)	**45.1**	(9.9)	(8.9)	**14.6**	29.6	2.7
Income from continuing operations per share	$ **.71**	.26	.54	**.63**	.15	29	**1.22**	84	.95	**2.94**	2.58	2.00
Dividends per share	$ **.46**	.46	.44	**.46**	.46	.44	**.46**	.46	.44	**.46**	.46	.44
Common stock price range												
High	$ **36**	26	32	**37**	28	32	**34**	29	33	**31**	25	28
Low	$ **22**	20	28	**30**	24	28	**27**	21	25	**25**	20	24

**The fourth quarters of fiscal 1981 and 1979 comprised 13 weeks compared with 14 in 1980.*

Ten Year Operations Summary

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
JCPenney full line stores*										
Number of stores	**597**	562	527	493	464	440	390	357	337	311
Net selling space (In million sq. ft.)	**50.7**	48.3	45.6	42.9	40.8	38.8	34.5	31.4	29.3	26.8
Sales (In millions)	**$7,902**	7,284	6,839	6,609	5,525	4,734	4,089	3,563	3,106	2,565
Sales per square foot	**$ 159**	155	156	159	138	129	125	119	112	103
JCPenney soft line stores*										
Number of stores	**1,065**	1,120	1,156	1,190	1,222	1,241	1,261	1,286	1,299	1,332
Net selling space (In million sq. ft.)	**13.8**	14.5	14.7	14.8	14.7	14.7	14.8	15.2	15.6	16.6
Sales (In millions)	**$2,388**	2,391	2,483	2,469	2,215	2,105	2,113	2,094	2,024	2,048
Sales per square foot	**$ 171**	166	170	168	153	146	142	135	125	121
Catalog										
Number of sales centers	**1,845**	1,840	1,820	1,617	1,496	1,432	1,353	1,298	1,236	1,131
Number of distribution centers	**5**	5	5	5	4	3	3	3	2	2
Distribution space (In million sq ft)	**9.6**	9.6	9 6	9.6	8 0	6.1	6.1	6.1	4.1	4.1
Sales (In millions)	**$1,680**	1,537	1,455	1,210	1,008	846	742	614	509	410
Belgian stores										
Number of stores	**72**	76	77	78	78	78	79	82	85	88
Net selling space (In million sq. ft)	**1.9**	1.9	1.9	1.8	1 8	1.7	1.7	1.7	1.6	1.5
Sales (In millions)	**$ 748**	911	861	768	625	526	469	397	334	262
Sales per square foot	**$ 205**	271	270	249	214	189	177	147	136	130
Drug stores										
Number of stores	**343**	361	351	335	299	271	259	255	239	216
Net selling space (In million sq. ft.)	**2.9**	3 1	3.0	2.8	2 4	2.1	1.9	1.7	1.5	1.3
Sales (In millions)	**$ 507**	474	409	348	298	258	231	191	155	132
Sales per square foot	**$ 174**	155	143	135	142	136	132	121	117	110

**Restated to reflect reclassification of ten soft line stores as full line stores*

Catalog merchandise sold through catalog sales centers located in the Company's stores is included in the sales of those stores Total catalog sales shown above include sales by catalog sales centers and mail Sales per square foot include only those sales from stores in operation for the full year

Store Space Opened in 1981

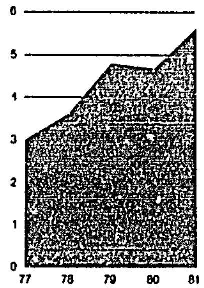
City, state, shopping center	Gross square feet of store space (In thousands)
JCPenney stores	
First Quarter	
*Fredericksburg, Virginia (Spotsylvania)	95
*Evansville, Indiana (Eastland)	158
Charlottesville, Virginia (Fashion Square)	97
*Ogden, Utah (Ogden City)	150
*Athens, Georgia (Georgia Square)	104
*Midland, Texas (Midland Park)	97
*Ponca City, Oklahoma (Ponca)	39
Phoenix, Arizona (West Phoenix)	159
*McMinnville, Tennessee (Three Star)	34
LaVale, Maryland (Country Club)	69
*Palatka, Florida (Palatka)	52
Boone, North Carolina (Boone)	34
*Grand Junction, Colorado (Mesa)	101
Portland, Oregon (Clackamas Town Center)	158
*Bloomington, Indiana (College)	107
White Plains, New York (The Galleria of White Plains)	218
Barboursville, West Virginia (Huntington)	159
*Nacogdoches, Texas (University)	34
Second Quarter	
*DuBois, Pennsylvania (DuBois)	35
*Laurel, Mississippi (Sawmill Square)	48
*Carlsbad, New Mexico (Carlsbad)	34
*Cape Girardeau, Missouri (West Park)	106
Okemos, Michigan (Meridian)	104
*Lansing, Michigan (Lansing)	107
*Jackson, Michigan (Westwood)	96
*Chubbuck, Idaho (Pine Ridge)	69
*Appleton, Wisconsin	113
Third Quarter	
*Aberdeen, Washington (South Shore)	73
Austin, Texas (Barton Creek Square)	144
*Houma, Louisiana (Southland)	90
*San Mateo, California (San Mateo Fashion Island)	158
*Terre Haute, Indiana (Honey Creek Square)	94
Virginia Beach, Virginia (Lynnhaven)	144
*Hutchinson, Minnesota (Century Plaza)	34
*Jasper, Alabama (Jasper)	52
*Toole, Utah	18
*Gallup, New Mexico (Rio West)	67
*Racine, Wisconsin (Regency)	158
*Columbia, Tennessee (Shady Brook)	52
*Dayton, Ohio (Salem)	166
*Maryville, Missouri (Maryville)	22
Somerset, Kentucky (Somerset)	52
Fourth Quarter	
Memphis, Tennessee (Mall of Memphis)	144
National City, California (Plaza Bonita)	146
*Renton, Washington (Renton)	22
*Butler, Pennsylvania (Clearview)	67
*Mount Hope, West Virginia (Crossroads)	95
Total (47 stores opened)	4,375
Belgium (6 stores opened)	174
Drug stores and other (32 stores opened)	168
Gross store space opened	4,717

*Relocation of existing store

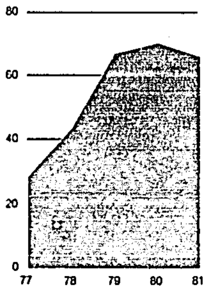
Corporate Responsibility

The Company continued to make progress in 1981 in its efforts to address social and environmental concerns. This year's presentation includes a five year summary of performance in major areas

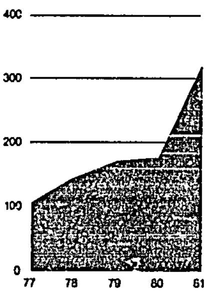
Contributions
(Dollars in millions)



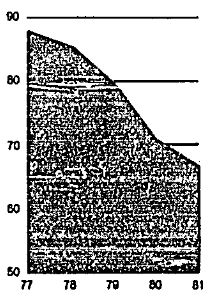
Minority Purchases
(Dollars in millions)



Resource Recovery
(Number of units)



Energy Consumption
(BTUs in thousands per sq. ft.)



Target Level 50,000 BTUs per sq. ft.

Community Involvement. JCPenney supports community involvement activities through employee volunteer programs and other Company sponsored projects. Our annual Community Service Award Contest recognizes outstanding volunteer work performed on employees' own time. More than 375 employees were entered in the contest for services performed in 1981, and 115 winners have received contributions for their charitable organizations.

JCPenney stores and facilities are actively involved with health agencies, youth groups, colleges, local governments, and art groups. In addition to providing technical expertise and loaned services, they offer printing help, meeting facilities, and educational programs

Contributions. JCPenney contributes money as well as services to a broad spectrum of social agencies. In 1981, our charitable contributions rose approximately $900,000 from the previous year to a total of $5.6 million. Approximately 75 per cent of this amount was made by stores and other facilities to support local services in communities where we do business. Included in the total was $2.3 million contributed to more than one thousand local United Way campaigns by the Company. Our employees pledged an additional $3 4 million through payroll deduction and one-time gifts to local United Ways. The remaining 25 per cent of our contributions was made to national organizations with programs having impact at the community level.

Minority Economic Development. Purchases of goods and services from minority owned businesses amounted to $65 million in 1981, versus $69 million in 1980. This represented business relationships with more than 850 suppliers, the same as in 1980. Additionally, we spent $1 3 million on advertising in 140 minority media, as against $1 million in 120 media in 1980

Working bank accounts were maintained with 12 minority owned banks, as compared with 13 in 1980. Average balances with these banks were approximately $ 5 million in both years At year end, lines of credit with 11 of these banks amounted to $2.2 million compared with credit lines with 12 banks totaling $2.4 million in 1980

Resource Recovery. In 1981, the Company began a major expansion of the Resource Recovery Program for all Company operations. The major thrust was in JCPenney stores where paper balers were installed to maximize the capture of recyclable materials. Company units participating at year end totaled 320, of which 292 were JCPenney stores. Through this program, more than 20 thousand tons of waste paper and other materials were recycled, up from 17 thousand tons in 1980 This program, in addition to being environmentally sound, has reduced waste removal expenses significantly

Energy Conservation. At year end, the Company had reduced energy consumption by 40 5 per cent from the base year of 1973, making progress toward the overall objective of a 55 per cent reduction The principal conservation measures focus on improving the energy efficiency of stores and facilities without sacrificing shopping and working environments. Such measures include heat recovery systems, energy use scheduling, energy efficient lamps and layouts, and improvement of building thermal characteristics.

Some 7,000 copies of a Company manual, "The Energy Management Process," have been distributed to government agencies, institutions, and businesses in order to share our energy conservation techniques.

Job Performance Action Program. Continued emphasis was placed on the Company's Job Performance Action Program, instituted in 1977 to address situations involving previously satisfactory employees whose job performance may be cause for termination. Sometimes such deterioration represents underlying organic, psychological, drug, or alcoholism problems.

The program offers employees the opportunity of referral to a professional diagnostic facility for confidential identification of their problems and participation in a treatment program. Last year about 75 per cent of program participants demonstrated improved job performance.

Employment. Year end employment totaled approximately 187,000, of whom 177,698 were employed in the United States, excluding unconsolidated subsidiaries and reflecting the discontinuance of the Treasury discount operation. Summaries are supplied for job categories as defined in the Employer Information Report EEO-1 of the Equal Employment Opportunity Commission. In 1981, a position revision was implemented which caused a population shift from office and clerical workers to technicians, craft workers, and operatives.

	Total employed		Per cent female		Per cent minority	
Category	**1981**	1977	**1981**	1977	**1981**	1977
Officials, managers, and professionals	**23,381**	23,788	**40.1**	37.9	**8.3**	6.8
Management trainees	**1,220**	1,814	**47.3**	42.5	**18.6**	18.9
Salesworkers	**85,901**	84,513	**83.5**	81.0	**11.3**	9.7
Office and clerical workers	**31,059**	42,757	**92.2**	89.2	**15.1**	13.1
Technicians, craft workers, and operatives	**18,794**	13,205	**67.4**	53.5	**15.5**	14.1
Laborers and service workers	**17,343**	18,983	**40.9**	42.3	**19.3**	18.2
Total	**177,698**	185,060	**73.2**	71.0	**12.8**	11.4

Impact of Inflation on Financial Data

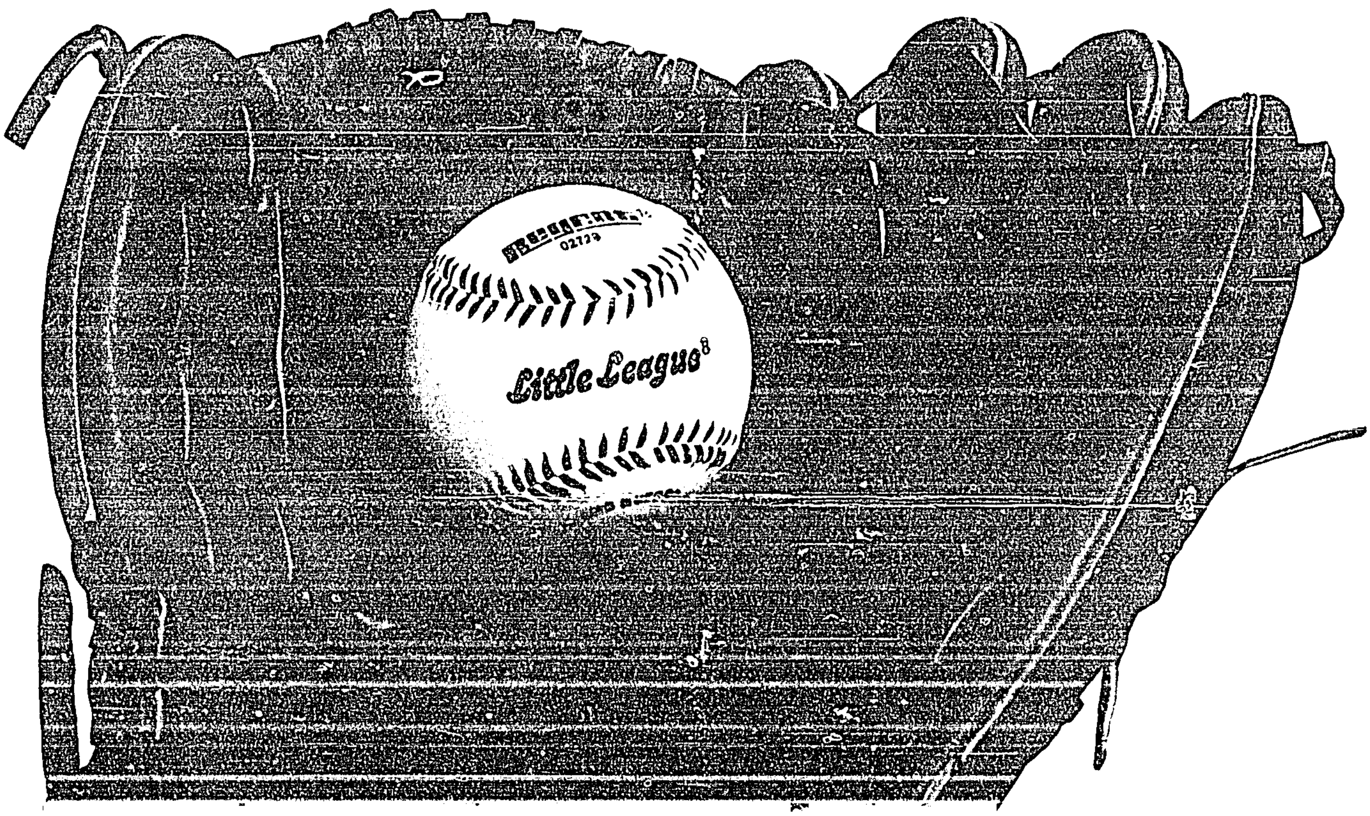
The preceding information was prepared on the historical cost basis. Substantial economic changes caused by inflation may not be adequately measured by historical cost information. The Financial Accounting Standards Board (FASB) has prescribed two methods of disclosure on an experimental basis, constant dollar and current cost, to address the effects of inflation on specific elements of financial statements. In accordance with the FASB's requirements, the principal adjustments to historical cost financial data are as follows:

	Constant dollar	Current cost
Plant and equipment	Historical costs are increased using the Consumer Price Index for All Urban Consumers (CPI-U).	Historical costs are increased to current costs for assets with the same service potential.
Inventory	Converted to average 1981 dollars.	FIFO method of inventory valuation.
Cost of goods sold	FIFO basis with beginning inventories adjusted for a full year of inflation using CPI-U.	No adjustment.

The Company believes general merchandise price increases are more appropriately measured by the index prepared by the Bureau of Labor Statistics (BLS) than the CPI-U. The CPI-U includes such costs as food, energy, and housing and for 1981 it was significantly higher than the BLS index. This distorts the effects of inflation on retail merchandise operations. In addition, the Company believes that the purchasing power gain should be presented as a reduction of interest expense since this reflects the effects of inflation on net monetary liabilities. Accordingly, 1981 income from continuing operations adjusted for changing prices using both the CPI-U (required methods) and these alternative methods is shown below:

1981 Income from continuing operations Adjusted for changing prices

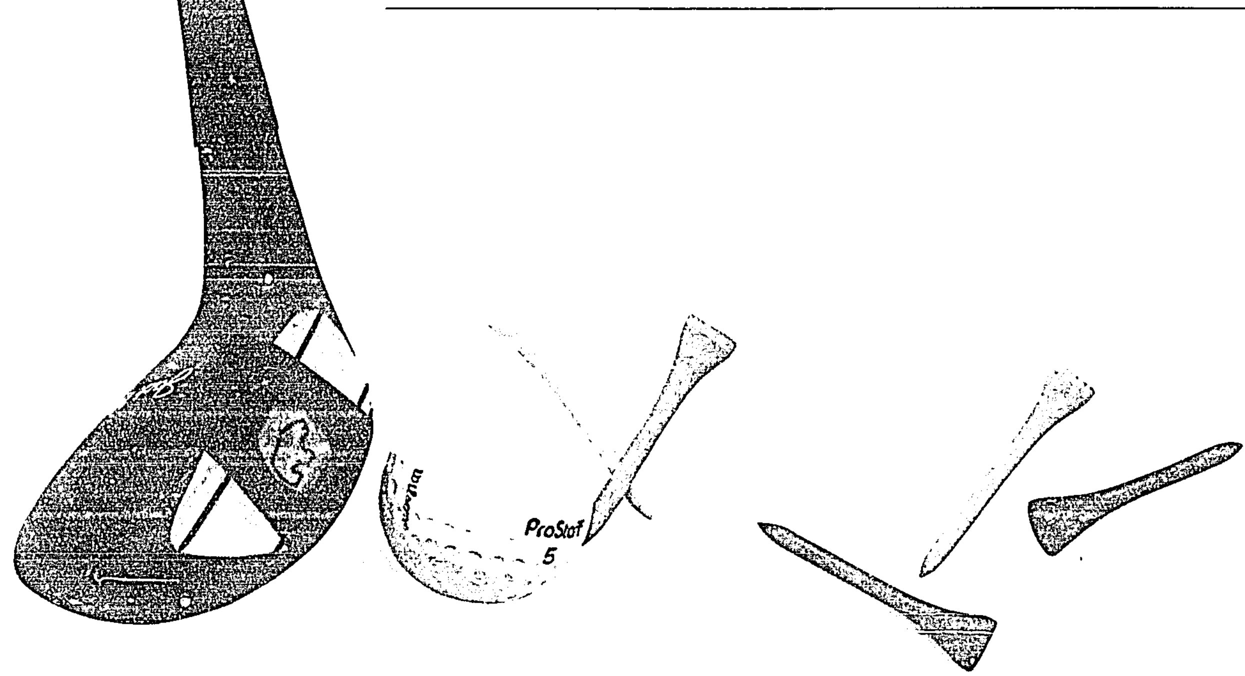
(In millions except per share data)	Required methods: Constant dollar	Required methods: Current cost	Alternative methods: Constant dollar	Alternative methods: Current cost
Income from continuing operations, as reported	$ 387	$ 387	$ 387	$ 387
Adjusted for changing prices				
Cost of goods sold	(192)	—	(89)	—
Depreciation and amortization	(77)	(37)	(77)	(37)
Interest expense	—	—	119	119
Income from continuing operations, as adjusted	$ 118	$ 350	$ 340	$ 469
Income from continuing operations per share, as adjusted (as reported $5.50)	$1.68	$4.98	$4.85	$6.69



Five year summary of selected financial data
Adjusted for changing prices

(In millions except per share data)	1981	1980	1979	1978	1977
Sales					
As reported	$11,860	11,353	10,856	10,436	9,040
CPI-U index	$11,860	12,500	13,548	14,537	13,587
BLS index	$11,860	11,887	12,082	12,283	11,155
Income from continuing operations					
As reported	$ 387	268	261		
Constant dollars	$ 118	133	140		
Current cost	$ 350	262	291		
Income from continuing operations per share					
As reported	$ 5.50	3.83	3.78		
Constant dollars	$ 1.68	1.89	2.02		
Current cost	$ 4.98	3.73	4.20		
Net assets at year end					
As reported	$ 2,933	2,639	2,520		
Constant dollars	$ 4,356	4,264	4,304		
Current costs	$ 3,807	3,663	3,714		
Excess of increase in general price level over increase in current cost*	$ 181	315	541		
Purchasing power gain (or loss) on net monetary items	$ 119	33	106		
Dividends per share					
As reported	$ 1.84	1.84	1.76	1.76	1.48
Constant dollars	$ 1.84	2.03	2.20	2.45	2.22
Common stock price at year end					
Actual	$ 31	22	25	32	34
Constant dollars	$ 30	23	29	42	49
Average CPI-U index	274.2	249 1	219 8	196.9	182 5
Per cent increase in CPI-U index	10.1	13.3	11.6	7.9	6 6
Per cent increase in BLS index	4.7	6 3	5 8	4.9	3.7

**At January 30, 1982, current cost of merchandise inventories was $1,867, and current cost of properties and property rights was $2,366*



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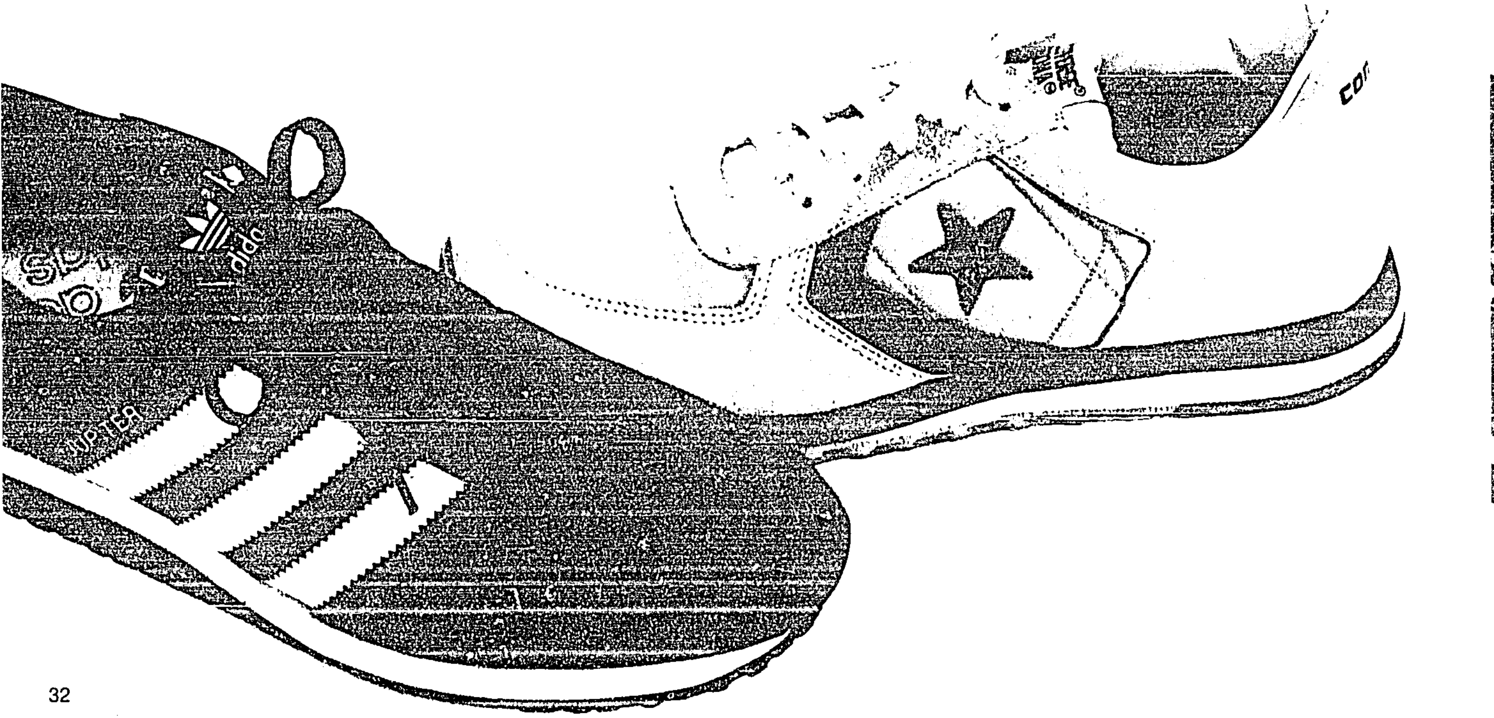
1 Member of the Audit Committee of the Board of Directors This committee recommends to the Board of Directors the independent auditors to be employed for the purpose of conducting the annual audit of the Company's accounts, discusses with the auditors the scope of their examination, reviews the Company's financial statements and the auditors' report with Company personnel and the auditors, determines whether the auditors have received all the explanations and information they had requested, and invites the recommendations of the auditors regarding internal controls and other matters

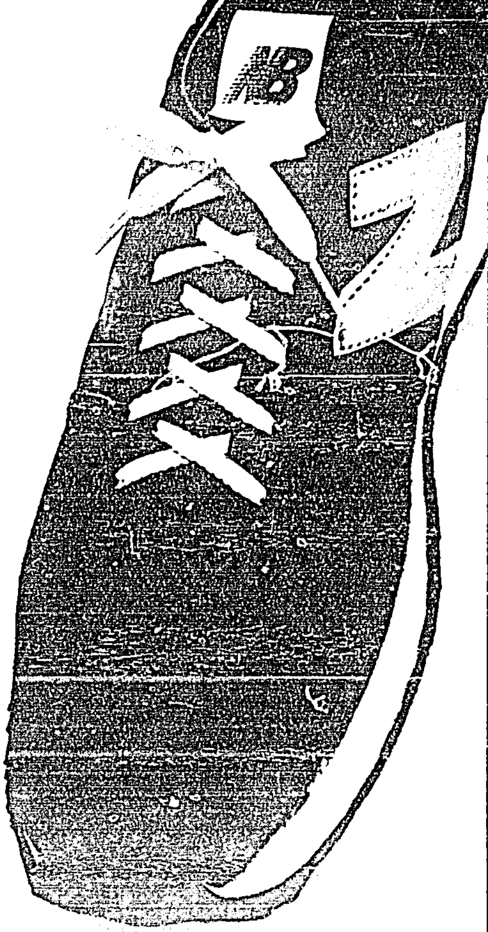
2 Member of the Public Affairs Committee This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends and public policy issues which may have a potential impact on the business performance and investment character of the Company It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest

3 Member of the Committee on Directors This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors

4 Member of the Personnel and Compensation Committee This committee reviews the Company's profit incentive and equity compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company officers, including those who are directors It is also the committee which acts under certain of the Company's equity, incentive compensation, and retirement plans

All of the committees described above are composed entirely of outside directors





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William B. Baxter
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John B. Hebard
Donald A. McKay
Jean P. Shanaphy

Transfer Agents

J C Penney Company, Inc
Securityholder Services
4301 Lancaster Pike
P O Box 3940
Wilmington, Delaware 19807

Registrar and Transfer Company
55 Water Street
New York, New York 10041

Registrars

Registrar and Transfer Company
55 Water Street
New York, New York 10041

Wilmington Trust Company
Wilmington, Delaware 19899

Exchange Listings

The New York Stock Exchange

Brussels and Antwerp Stock Exchanges

Supplemental Information

Copies of the Company's Form 10-K annual report for 1981 to the Securities and Exchange Commission and consolidated Employer Information Reports EEO-1 for 1981 year end to the United States Equal Employment Opportunity Commission will be made available upon request to

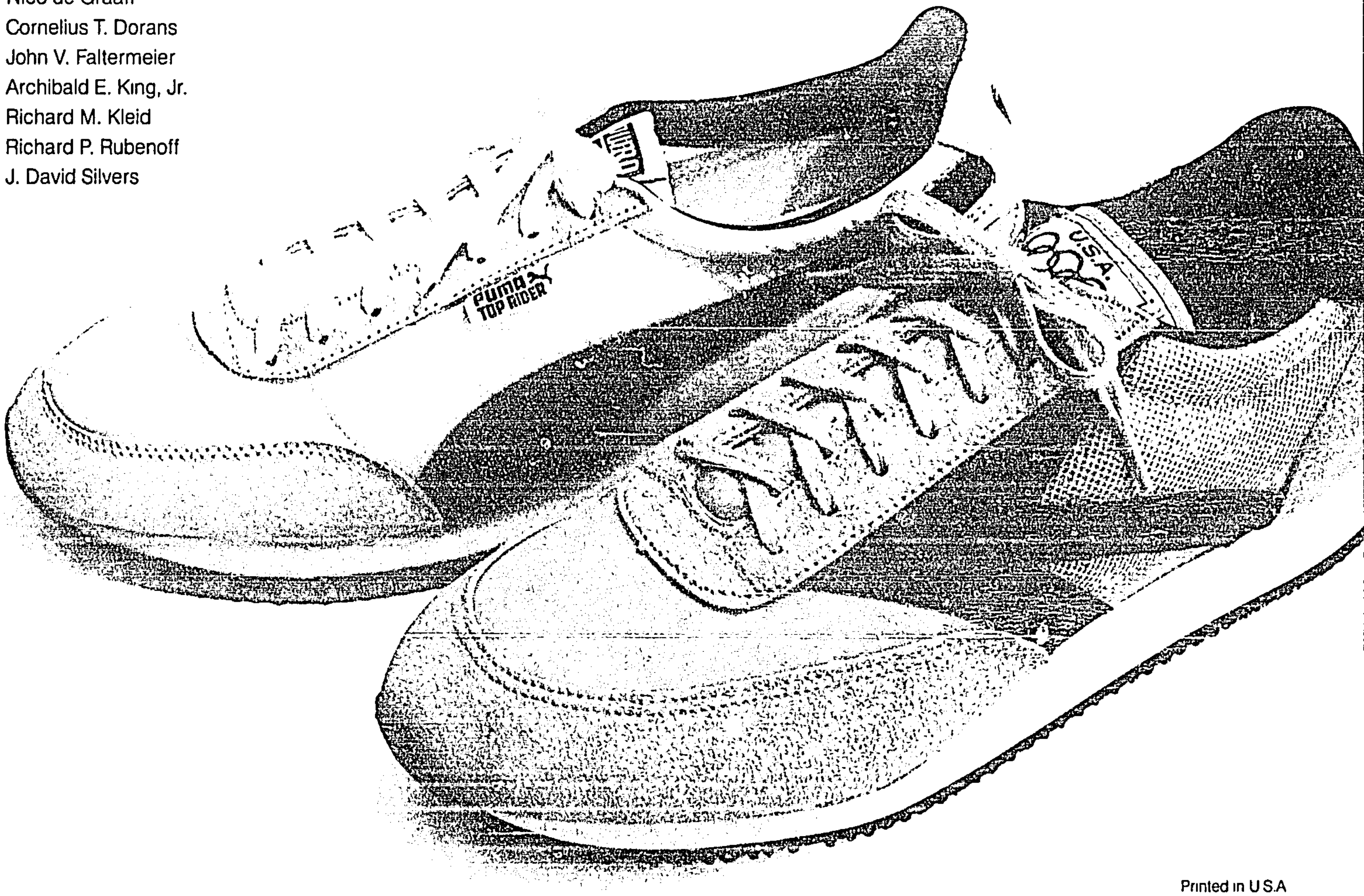
Ms Ann R Roberts
J C Penney Company, Inc
Public Relations
1301 Avenue of the Americas
New York, New York 10019
Phone (212) 957-8170

Copies of J C Penney Financial Corporation's annual report are available from

Mr Philip G Rickards
J C Penney Financial Corporation
PO Box 3999
Wilmington, Delaware 19807
Phone (302) 652-3801

Inquiries about your stockholder record should be forwarded to

Mr Alfred C Riley
J C Penney Company, Inc
Securityholder Services
PO Box 3940
Wilmington, Delaware 19807
Phone (302) 995-2284



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